Commentary | First Quarter 2024

# Quarterly Market Update


PRIMARY CONTRIBUTORS

**Dirk Hofschire, CFA**
*Director of Asset Allocation Research*

**Jake Weinstein, CFA**
*SVP, Asset Allocation Research*

**Andrew Garvey**
*Research Analyst,*
*Asset Allocation Research*

**Azize Engin**
*Research Associate,*
*Asset Allocation Research*

**Justine Jonathan**
*Research Associate,*
*Asset Allocation Research*

- Market Summary
- Economy/Macro Backdrop
- Asset Markets
- Long-Term Themes

# Market summary

# "Everything Rally" in Q4 as Fed signaled pivot to easing

**The U.S. Federal Reserve signaled in Q4 that disinflationary trends were sufficient to project a shift to monetary easing in 2024. This news, along with the resilient U.S. late-cycle expansion, spurred global stock and bond markets to a powerful year-end rally. Markets begin 2024 amid easier financial conditions, but positive surprises for the economy, disinflation, and Fed cuts may be more difficult with so much good news already priced in.**

| | MACRO | ASSET MARKETS |
|---|---|---|
| **Q4 2023** | • Global disinflation and economic expansion trends continued. | • Stock and bond prices rallied significantly as yields dropped. |
| **OUTLOOK** | • The global business cycle remains in expansion but is less synchronized and faces multiple crosswinds.<br>• The U.S. is in the late-cycle expansion phase, supported by a solid consumer backdrop.<br>• The "last mile" of disinflation toward the Fed's target may be difficult without greater economic slowing.<br>• The global monetary tightening cycle appears over, but the pace and magnitude of easing remains uncertain.<br>• Alternative scenarios to the soft-landing consensus include both upside inflation risks and the possibility of a greater-than-expected economic slowdown. | • Markets begin 2024 with favorable momentum and easier financial conditions.<br>• Investors may be overly sanguine about the aggressiveness of Fed rate cuts, absent clearer signs of economic slowing.<br>• Upside surprises may be more difficult amid low market volatility and higher valuations.<br>• Some equity sectors and categories, including non-U.S. stocks, have priced in less good news and appear relatively attractive.<br>• Late-cycle positioning implies smaller cyclical tilts and a readiness for opportunities; owning bonds and high levels of long-term portfolio diversification remain warranted. |

 Diversification does not ensure a profit or guarantee against a loss.

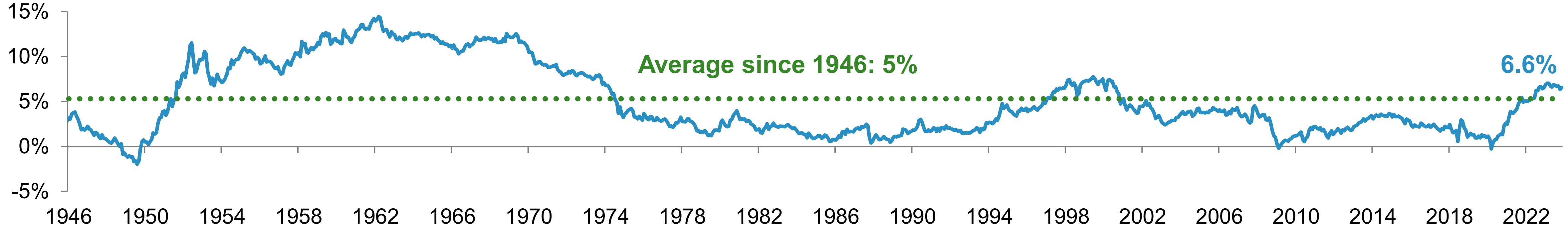
# A Q4 rally for most asset classes adds to their 2023 gains

**The broad-based Q4 market rally, led by double-digit gains across most equity categories, capped a strong year for asset returns. A sharp drop in bond yields during Q4 propelled fixed-income categories into solidly positive territory for 2023, with riskier high-yield corporate bonds leading the way. For the full year, U.S. large cap growth stocks topped the leaderboard, while commodities were the only major asset category suffering losses.**

| | Q4 2023 | 2023 | | Q4 2023 | 2023 |
|---|---|---|---|---|---|
| U.S. Growth | 14.1% | 41.2% | U.S. Value | 9.8% | 11.7% |
| U.S. Large Cap Stocks | 11.7% | 26.3% | Emerging-Market Bonds | 9.2% | 11.1% |
| Non-U.S. Developed-Country Stocks | 10.4% | 18.2% | Emerging-Market Stocks | 7.9% | 9.8% |
| U.S. Small Cap Stocks | 14.0% | 16.9% | U.S. Corporate Bonds | 8.2% | 8.2% |
| Real Estate Stocks | 16.2% | 13.7% | Long Government & Credit Bonds | 13.2% | 7.1% |
| High-Yield Bonds | 7.1% | 13.5% | Investment-Grade Bonds | 6.8% | 5.5% |
| Gold | 11.6% | 13.1% | Commodities | -4.6% | -7.9% |

**20-Year U.S. Stock Returns Minus IG Bond Returns since 1946**

Annualized Return Difference

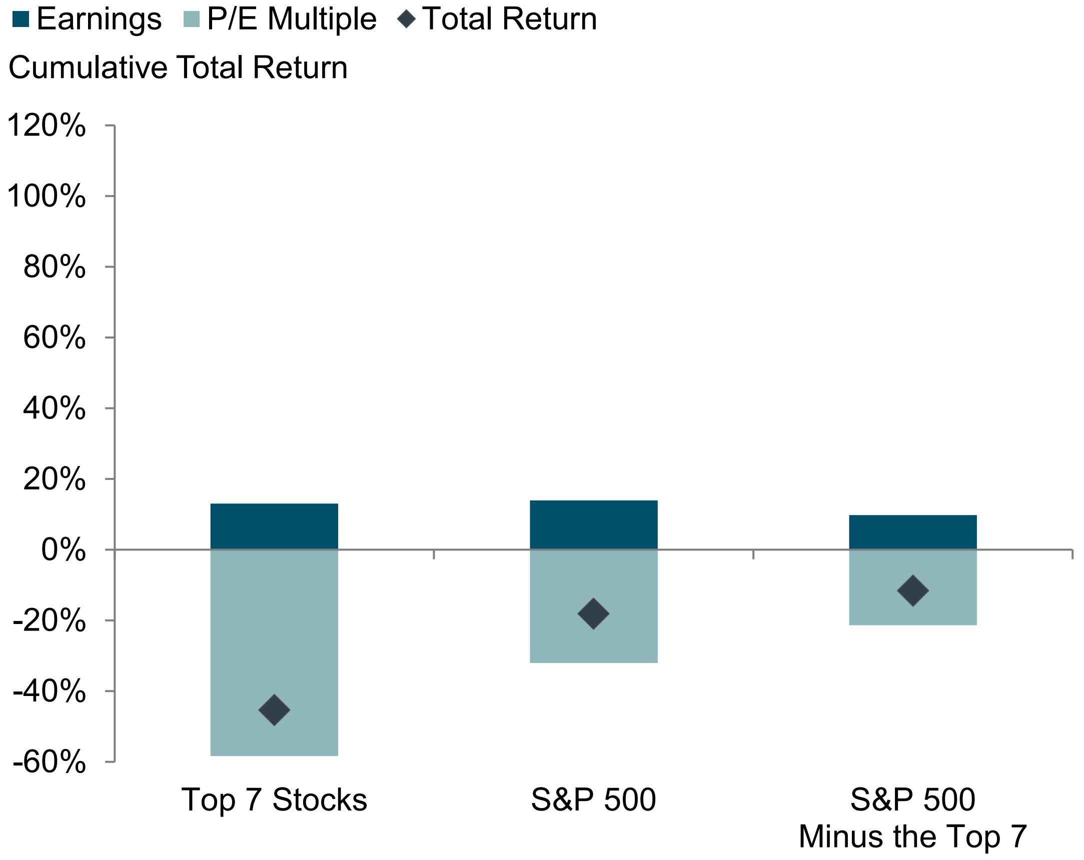



**Past performance is no guarantee of future results.** It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. IG: Investment grade. Assets represented by: U.S Growth Stocks—Russell 3000 Growth Index; Non-U.S. Developed-Country Stocks—MSCI EAFE Index; Gold—Gold Bullion, LBMA PM Fix; U.S. Large Cap Stocks—S&P 500®; Long Government & Credit Bonds—Bloomberg Long Government & Credit Index; Emerging-Market Stocks—MSCI EM Index; High-Yield Bonds—ICE BofA High Yield Bond Index; U.S. Corporate Bonds—Bloomberg U.S. Credit Index; Investment-Grade Bonds—Bloomberg U.S. Aggregate Bond Index; U.S. Small Cap Stocks—Russell 2000® Index; Real Estate Stocks—FTSE NAREIT Equity Index; Emerging-Market Bonds—JP Morgan EMBI Global Diversified Composite Index; U.S Value Stocks—Russell 3000® Value Index; Commodities—Bloomberg Commodity Index. Source: Bloomberg Finance L.P., Fidelity Investments Asset Allocation Research Team (AART), as of 12/31/23.

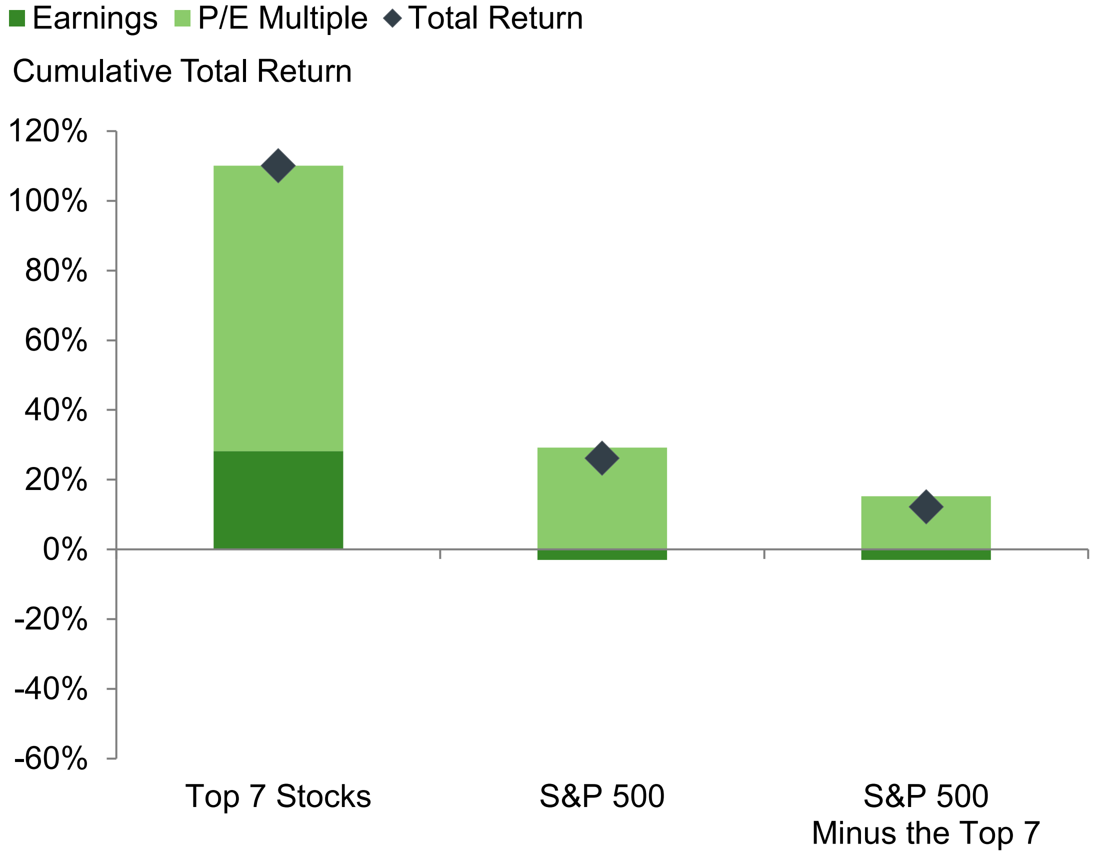
# Strong performance by the largest stocks led the way

**A dramatic rebound for the stocks of the seven-largest U.S. companies by market capitalization—concentrated in the technology and communications sectors—drove the U.S. equity market's gain. One year after their shares lost more than 40% due to the compression of valuation multiples, stocks of the largest seven companies gained more than 100% in 2023. Valuation multiple expansion propelled the overall market's gains despite a downtick in earnings.**

**Composition of U.S. Equity Returns (2022)**




**Composition of U.S. Equity Returns (2023)**

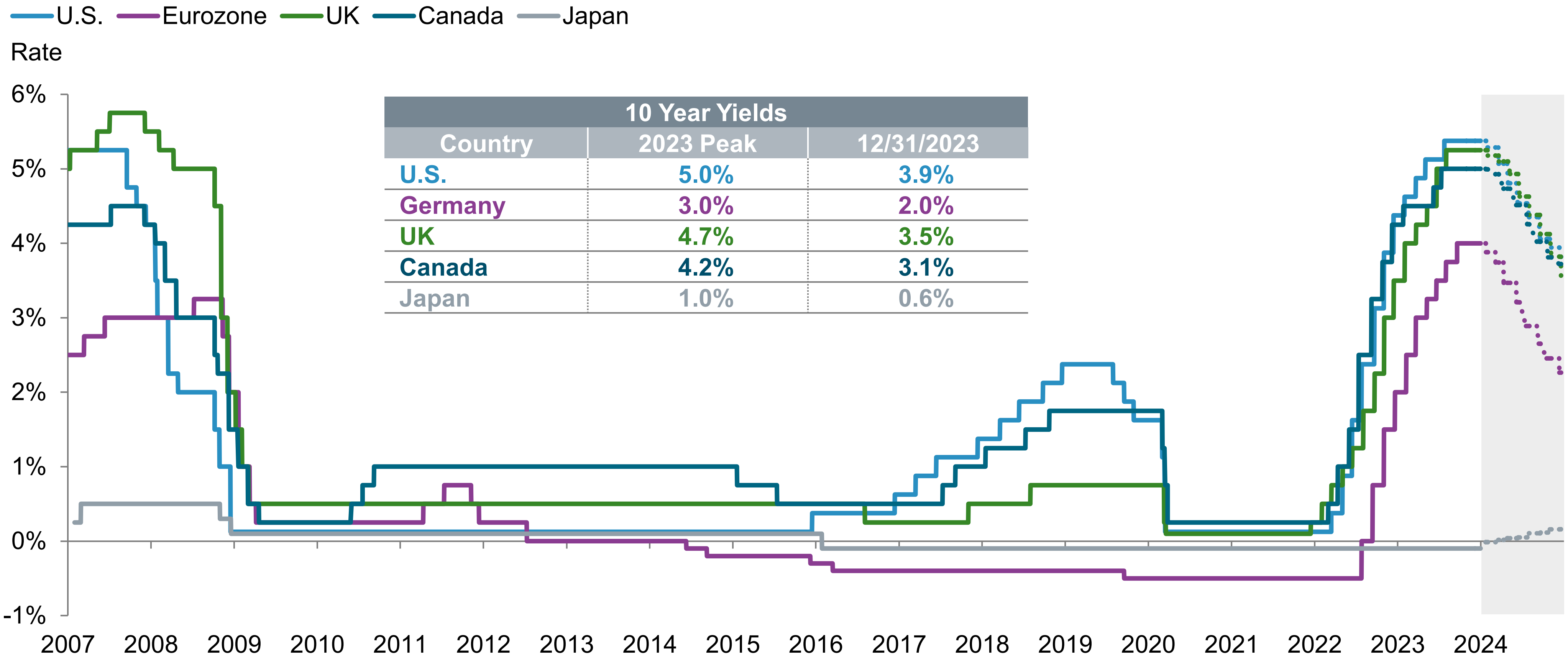



Largest seven U.S. stocks by market capitalization: Nvidia, Alphabet, Meta, Microsoft, Apple, Amazon, and Tesla. Earnings: Trailing 12-month diluted earnings per share growth. P/E Multiple: Price-to-Earnings ratio for trailing 12-month diluted earnings. P/E Multiple and earnings use street estimates for Q4-2023. Calculation of P/E multiple returns excludes impact of dividends. Source: Bloomberg Financial LP, Fidelity Investments, as of 12/31/23.

# Markets priced for a global monetary easing cycle in 2024

**After one of the most dramatic global monetary tightening cycles on record during 2022–2023, investor sentiment shifted during Q4 to a view that policy rates had peaked in most countries. With policy rates still at their highest levels in more than a decade in major economies such as the U.S. and the Eurozone, futures markets at the end of 2023 reflected a widespread belief that policymakers would cut rates multiple times during 2024.**

## Global Short-Term Policy Rates



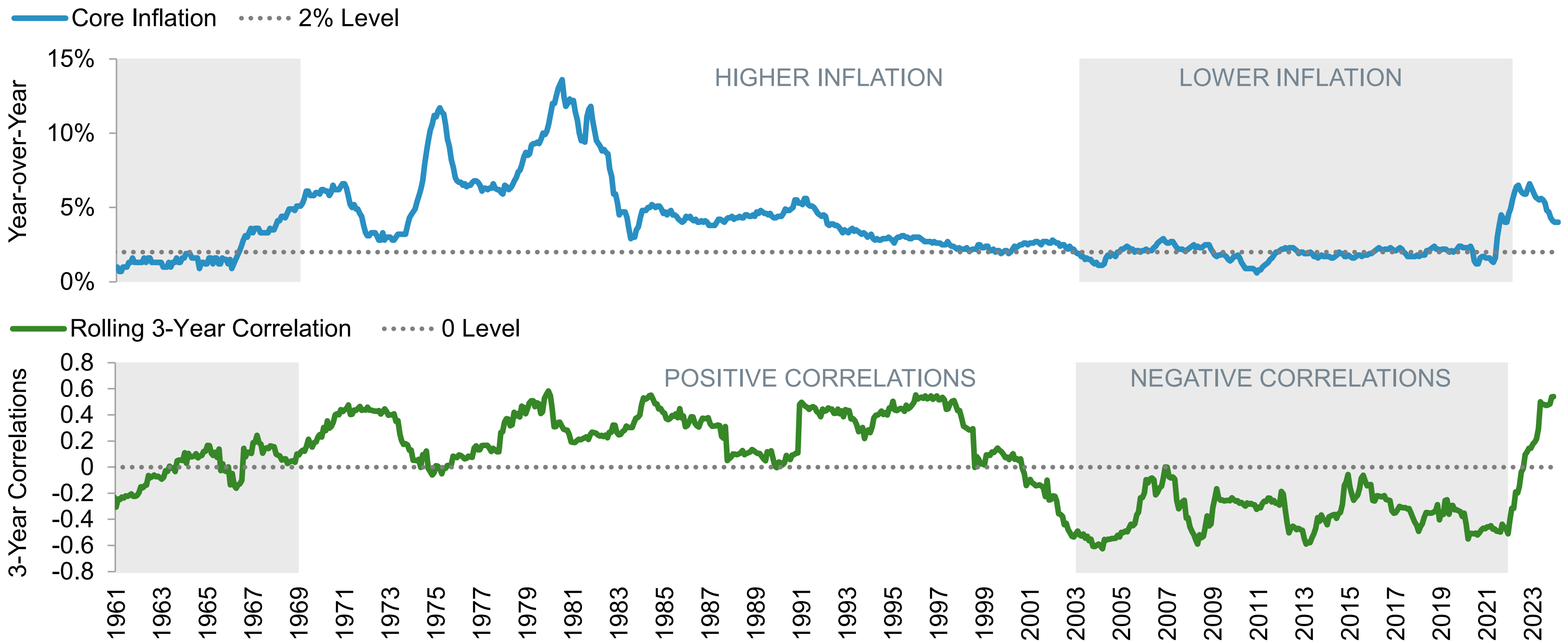

| 10 Year Yields | | |
|---|---|---|
| Country | 2023 Peak | 12/31/2023 |
| U.S. | 5.0% | 3.9% |
| Germany | 3.0% | 2.0% |
| UK | 4.7% | 3.5% |
| Canada | 4.2% | 3.1% |
| Japan | 1.0% | 0.6% |

Dotted lines in the shaded area represent market rate expectations using OIS swaps. Source: U.S. Federal Reserve Board, ECB, Bank of Japan, Bank of England, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# High inflation drives positive stock-bond correlations

**Over the past 20 years, subdued and relatively stable U.S. core inflation averaged about 2% and facilitated an environment of negative correlations between U.S. stocks and Treasury bonds, leading to strong portfolio diversification. Since 2021, the backdrop has been more akin to prior periods of high inflation and positive stock-bond correlations. During Q4 2023, core inflation decelerated but remained well above 2%, and stock and bond prices both rose.**

### Stock and Treasury Bond Correlations vs. Inflation

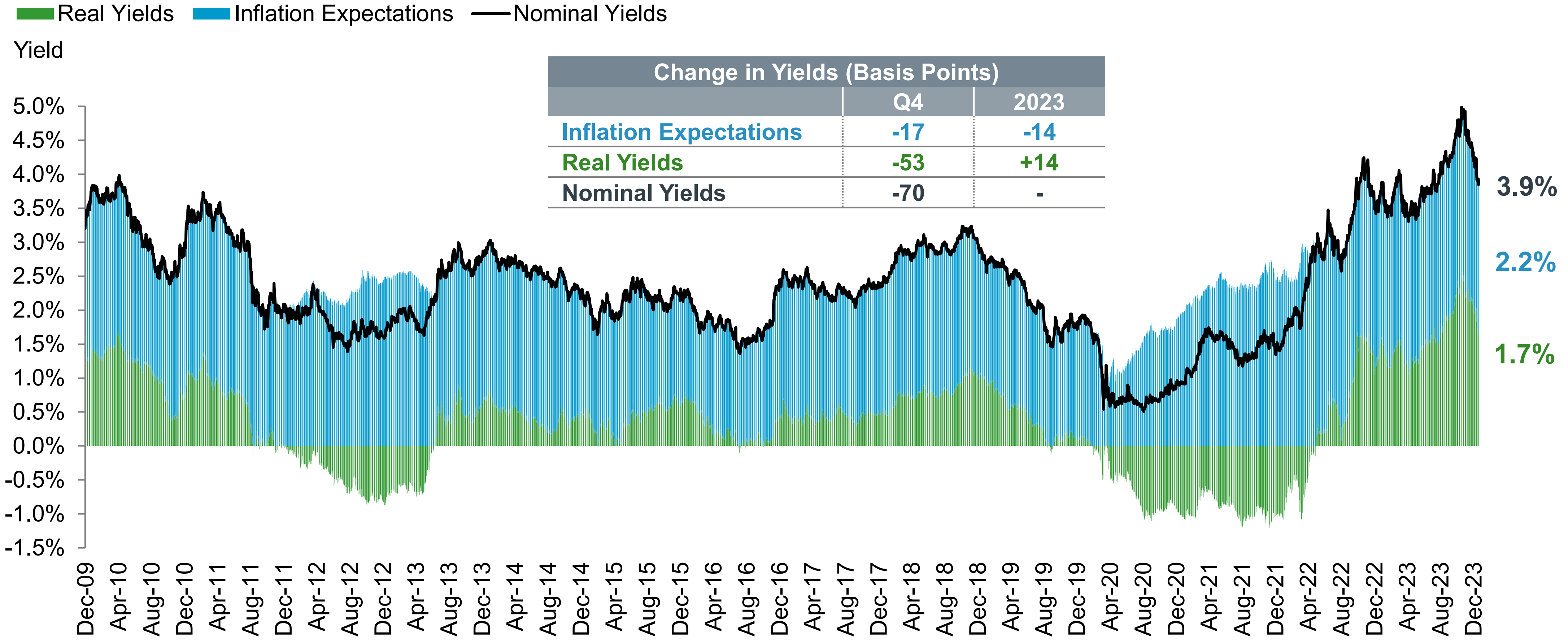



Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss. Fidelity Investments proprietary analysis of historical asset class performance is not indicative of future performance. Stocks measured by the Dow Jones U.S. Total Stock Market Index (Total Return). U.S. Treasuries measured by the Bloomberg U.S. Intermediate Treasury Bond Index (Total Return). Source: Bureau of Labor Statistics, Macrobond, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# Treasury yields came full circle in 2023 after Q4 plunge

**After advancing to nearly a 5% yield in Q3, nominal 10-year Treasury bond yields turned sharply lower during Q4 and finished 2023 in roughly the same place as they began. The substantial decline in real yields—the inflation-adjusted cost of borrowing—drove most of the steep Q4 drop in nominal yields, largely due to investor expectations that the Fed would shift to an easing posture in 2024.**

## 10-Year U.S. Government Bond Yields



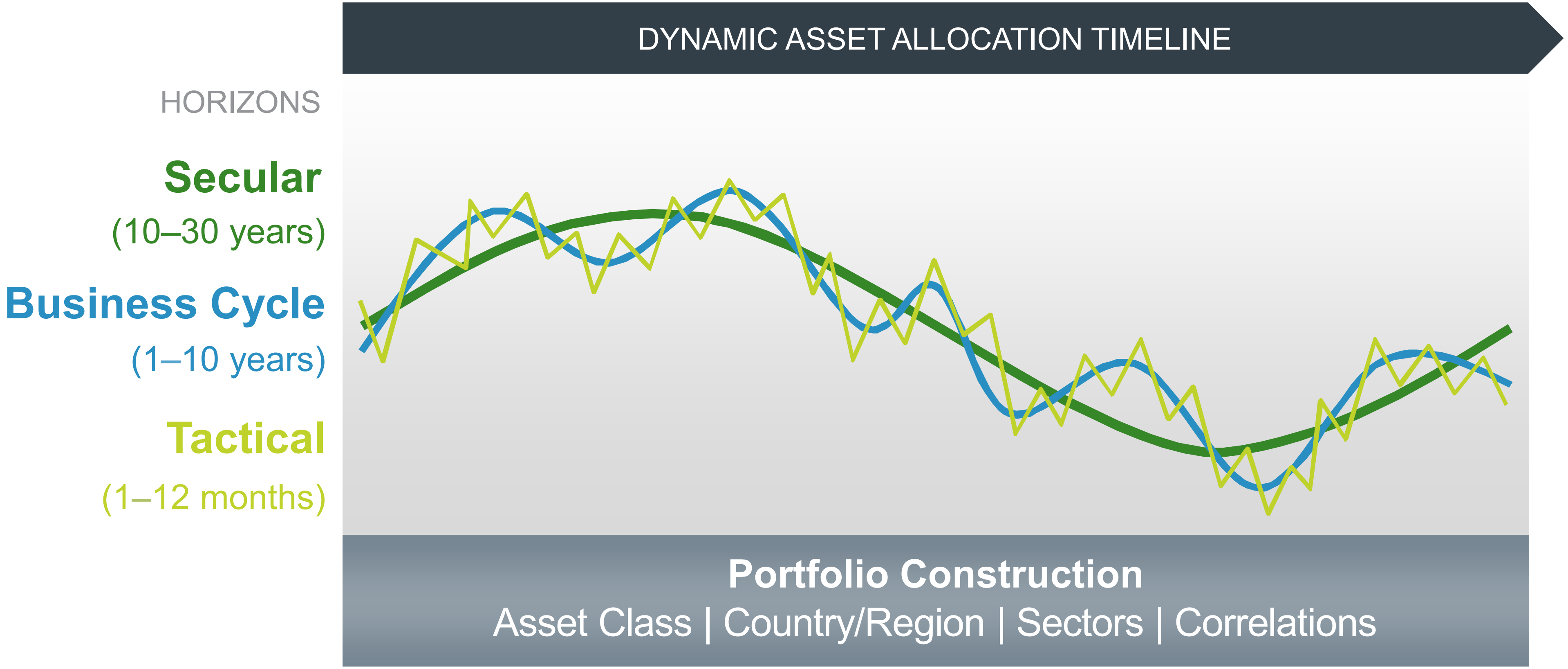

| Change in Yields (Basis Points) | | |
|---|---|---|
| | Q4 | 2023 |
| Inflation Expectations | -17 | -14 |
| Real Yields | -53 | +14 |
| Nominal Yields | -70 | - |

Nominal Yields are U.S. Generic Govt 10-Year yields, inflation expectations are the U.S. Breakeven 10-Year rates. TIPS: Treasury Inflation Protected Securities. Source: Bloomberg, Federal Reserve, Macrobond, Fidelity Investments (AART) as of 12/31/2023.

# Economy/macro backdrop

# Multi-time-horizon asset allocation framework

**Fidelity's Asset Allocation Research Team (AART) believes that asset-price fluctuations are driven by a confluence of factors that evolve over different time horizons. As a result, we employ a framework that analyzes trends among three temporal segments: tactical (short term), business cycle (medium term), and secular (long term).**




 For illustrative purposes only. Source: Fidelity Investments (AART), as of 9/30/23.

# Global business cycle in less synchronized expansion

**Many major economies, including the U.S., remained in the late-cycle expansion phase. Global crosswinds included evidence of solid service activity but restrictive monetary policies in many developed economies. The global monetary tightening cycle appears to be over, but the pace and magnitude of easing remains uncertain. China remained an outlier, as it continued to ease policy in hopes of reaccelerating from its growth slump.**

## Business Cycle Framework

Cycle Phases

**EARLY**
- Activity rebounds (GDP, IP, employment)
- Credit begins to grow
- Profits grow rapidly
- Policy still stimulative
- Inventories low; sales improve

**MID**
- Growth peaking
- Credit growth strong
- Profit growth peaks
- Policy neutral
- Inventories, sales grow; equilibrium reached

**LATE**
- Growth moderating
- Credit tightens
- Earnings under pressure
- Policy contractionary
- Inventories grow, sales growth falls

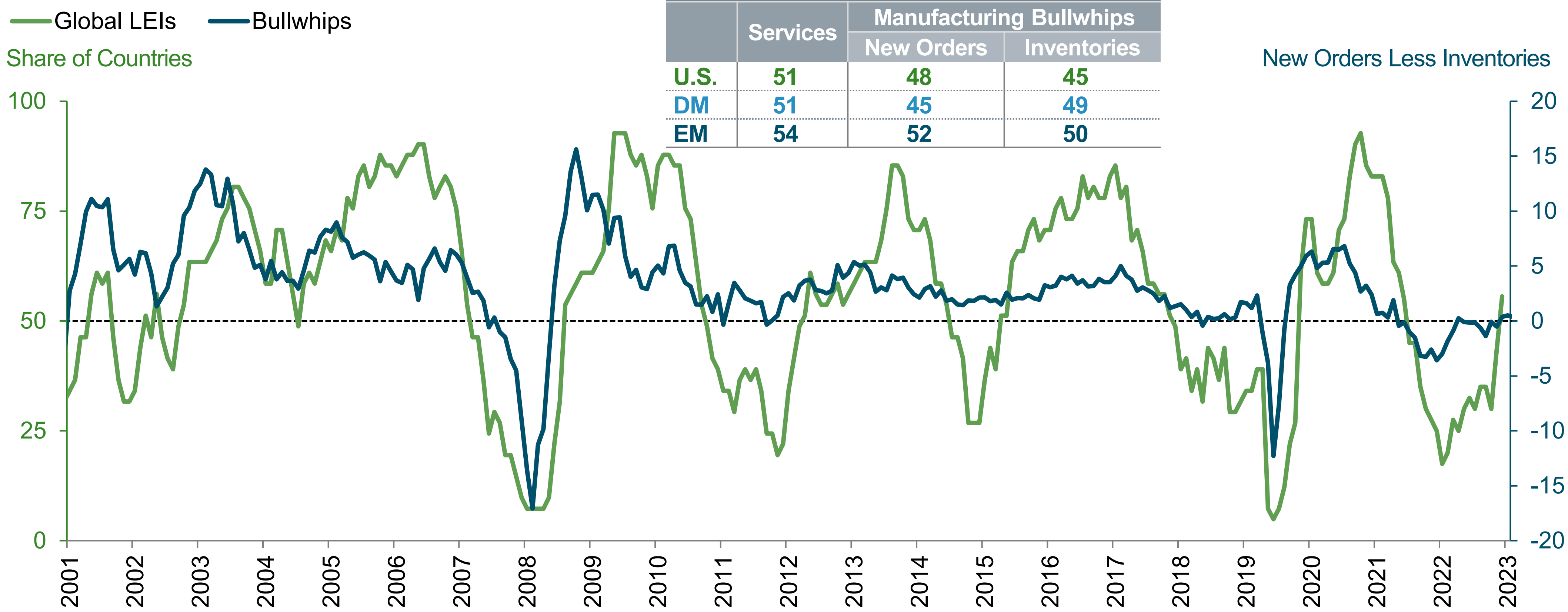
**RECESSION**
- Falling activity
- Credit dries up
- Profits decline
- Policy eases
- Inventories, sales fall


A growth recession is a significant decline in activity relative to a country's long-term economic potential. Note: The diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of 12/31/23.

# Global cycle solidified as the year progressed

**The global expansion solidified in 2023. Leading economic indicators rose across a majority of the world's largest economies near the end of 2023, bolstered by services activity. Manufacturing bullwhips—new orders minus inventories—ended the year in positive territory, potentially signaling firming industrial activity. Risks to the 2024 outlook include still-tepid global manufacturing activity and the lagged impact of monetary tightening.**

## Global Leading Indicators



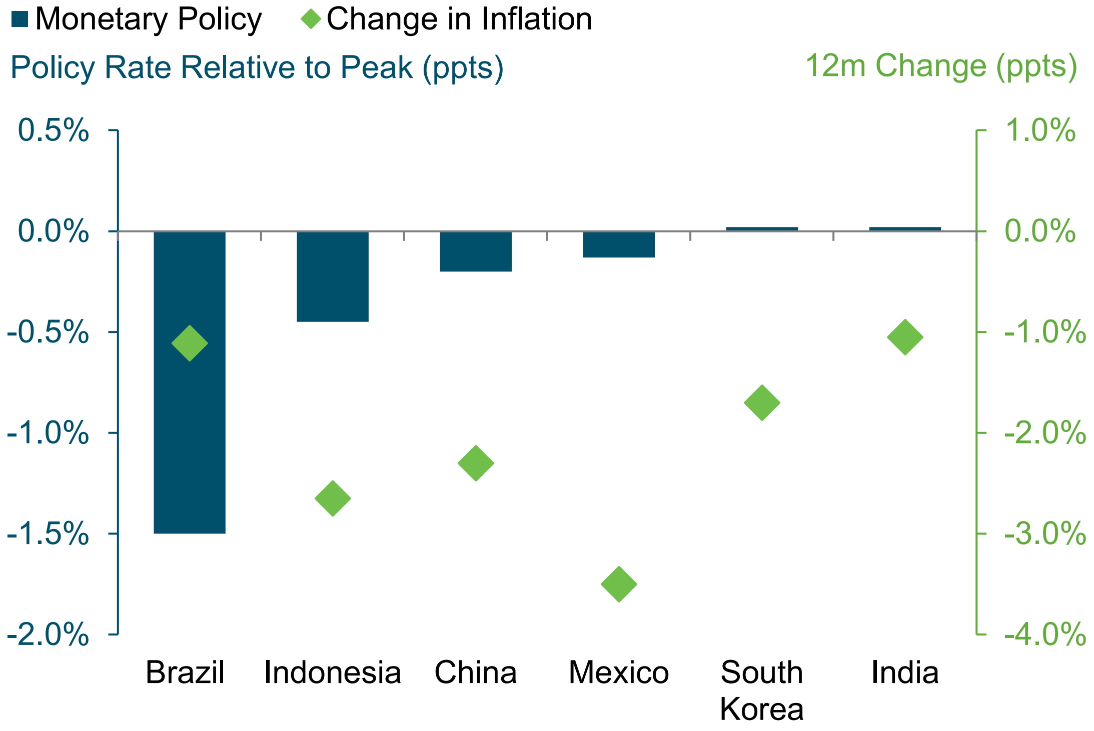

| Country and Regional PMIs | | | |
|---|---|---|---|
| | Services | Manufacturing Bullwhips | |
| | | New Orders | Inventories |
| U.S. | 51 | 48 | 45 |
| DM | 51 | 45 | 49 |
| EM | 54 | 52 | 50 |

Global LEIs: Percent of the world's 37 largest economies with rising Leading Economic Indicators over the past six months. PMI: Purchasing managers' index. Readings above 50 indicate expansion. EM: Emerging markets. DM: Developed markets. Bullwhip: New Orders PMI less Inventories PMI (numbers may differ due to rounding). Global Bullwhips weighted by country GDP. Source: Markit, Institute for Supply Management, S&P Global, Macrobond, Fidelity Investments (AART), as of 12/31/23.

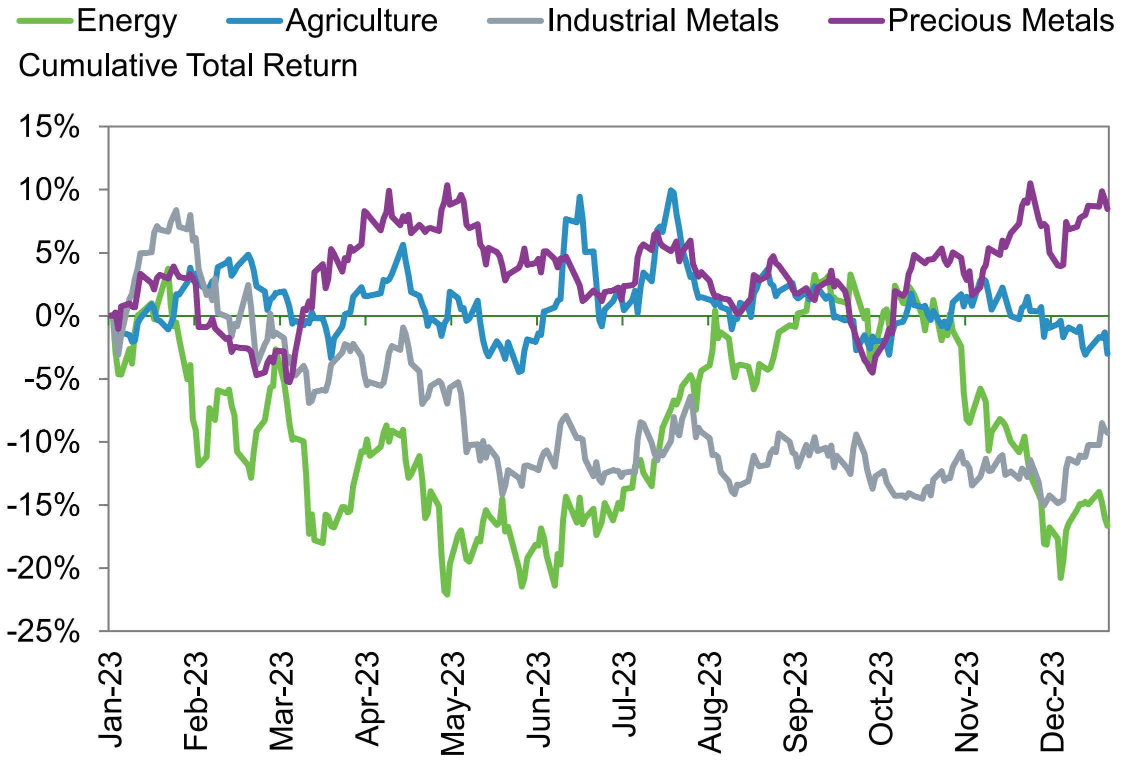
# Ebbing commodity prices provide relief to EM policymakers

**The drop in commodity prices during 2023, highlighted by a decline in oil and energy prices, contributed to significant disinflation in emerging markets (EM). As inflation fell below or closer to target rates, some EM central banks began to cut interest rates. This continued a trend of EM countries moving generally more quickly to adjust monetary policy to near-term inflation trends.**

### EM Monetary Policy and Inflation Trends




### Commodity Price Index Returns



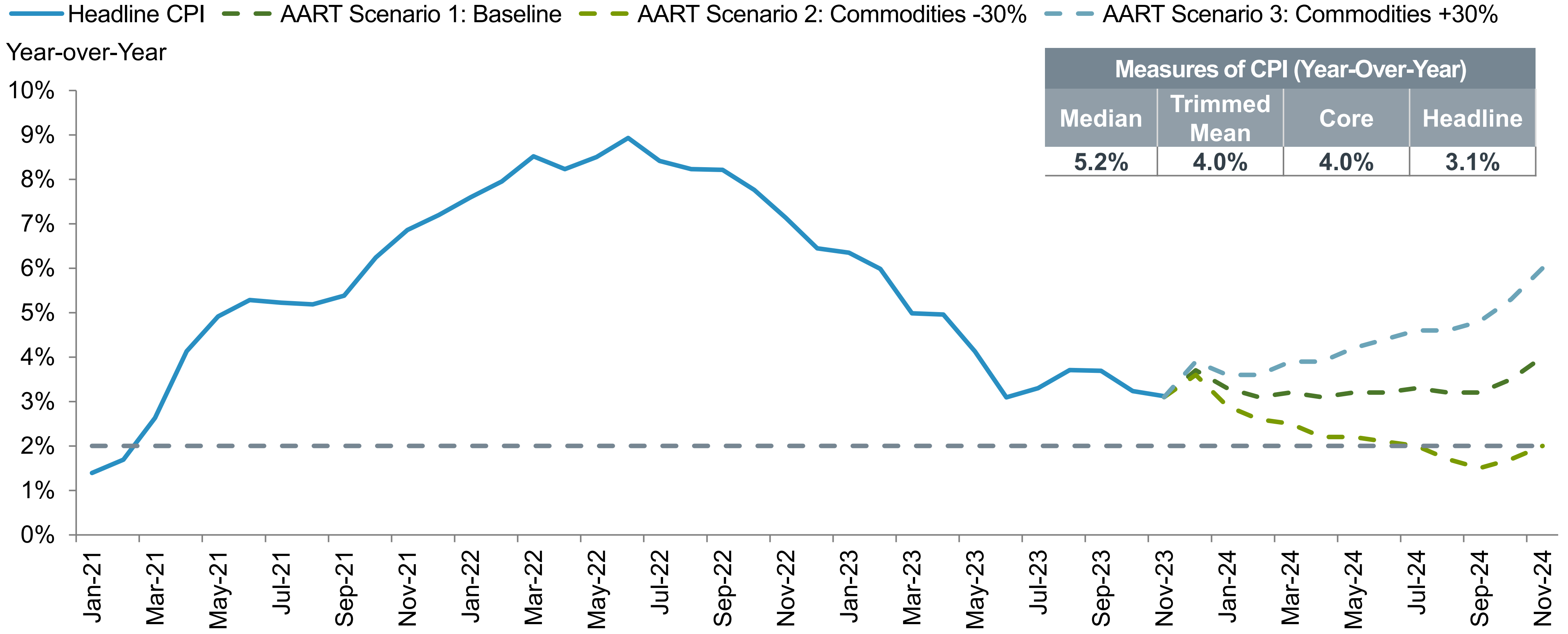

LEFT: Policy rate relative to peak is the current policy rate of each central bank minus the highest policy rate since Jan-2023. Inflation measured by YoY Headline CPI. Ppts = percentage points.12 m = 12 months. Source: Bloomberg Finance L.P., National statistical agencies, Fidelity Investments (AART), as of 12/31/23. RIGHT: Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Returns represented by Bloomberg Commodity Total Return Sub-indexes (Bloomberg Industrial Metals Subindex Total Return Index, Bloomberg Agriculture Subindex Total Return Index, Bloomberg Energy Subindex Total Return Index, and the Bloomberg Precious Metals Subindex Total Return Index.) Source: JP Morgan, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# After significant disinflation, reaching 2% may be harder



**Headline consumer price inflation dropped to near 3% toward the end of 2023 from the 2022 peak of 9%, but the steady decline in year-over-year inflation rates slowed in recent months. A large drop in energy prices aided the disinflationary trend, but core inflation rates and more robust measures remained higher and stickier. We believe there is a risk that inflation remains above the Fed's 2% target absent a greater deterioration in economic activity.**

### Inflation Estimates under Different Commodity Price Scenarios



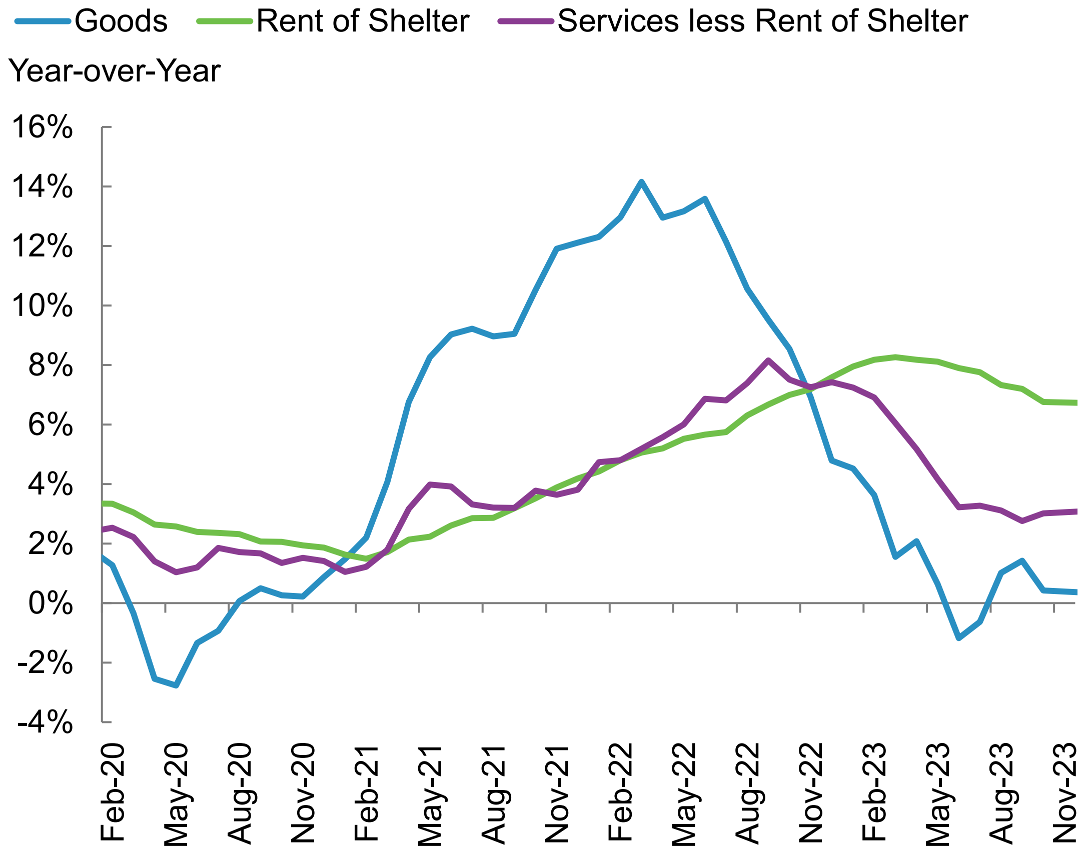

| Measures of CPI (Year-Over-Year) | | | |
|---|---|---|---|
| Median | Trimmed Mean | Core | Headline |
| 5.2% | 4.0% | 4.0% | 3.1% |

CPI: Consumer Price Index. Commodity prices are represented by the Bloomberg Commodity Index (BCOM), and their hypothetical changes over the next year are assumed to occur equally throughout the year. Table values are as of 11/30/23. Trimmed mean excludes inflation rates that fall above the 98th percentile or below the 8th percentile of price changes. Median CPI excludes inflation rates outside of the 50th percentile of price changes. Source: Federal Reserve Bank of Cleveland, Macrobond, Bureau of Labor Statistics, Bloomberg, Haver Analytics, Fidelity Investments (AART), as of 11/30/23.

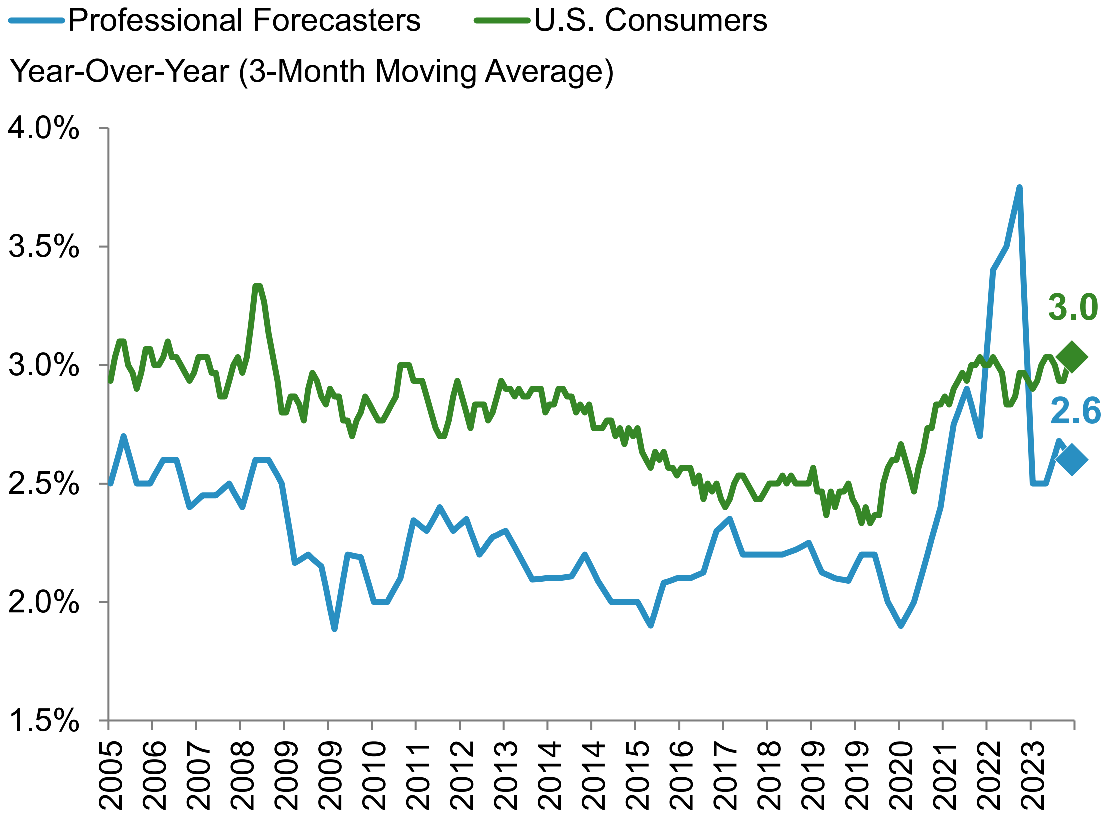
# Inflation progress appears more mixed beneath the surface

**Rapid goods disinflation—from 14% in 2022 to near zero by the end of 2023—contributed greatly to lower consumer inflation but may not continue absent a deeper slowdown in global growth. Meanwhile, housing services inflation slowed much less than market expectations and disinflation in other services stalled. Consumer expectations for medium-term inflation remained elevated despite the disinflation in 2023.**

### Components of Consumer Price Index




### Five-Year Inflation Expectations

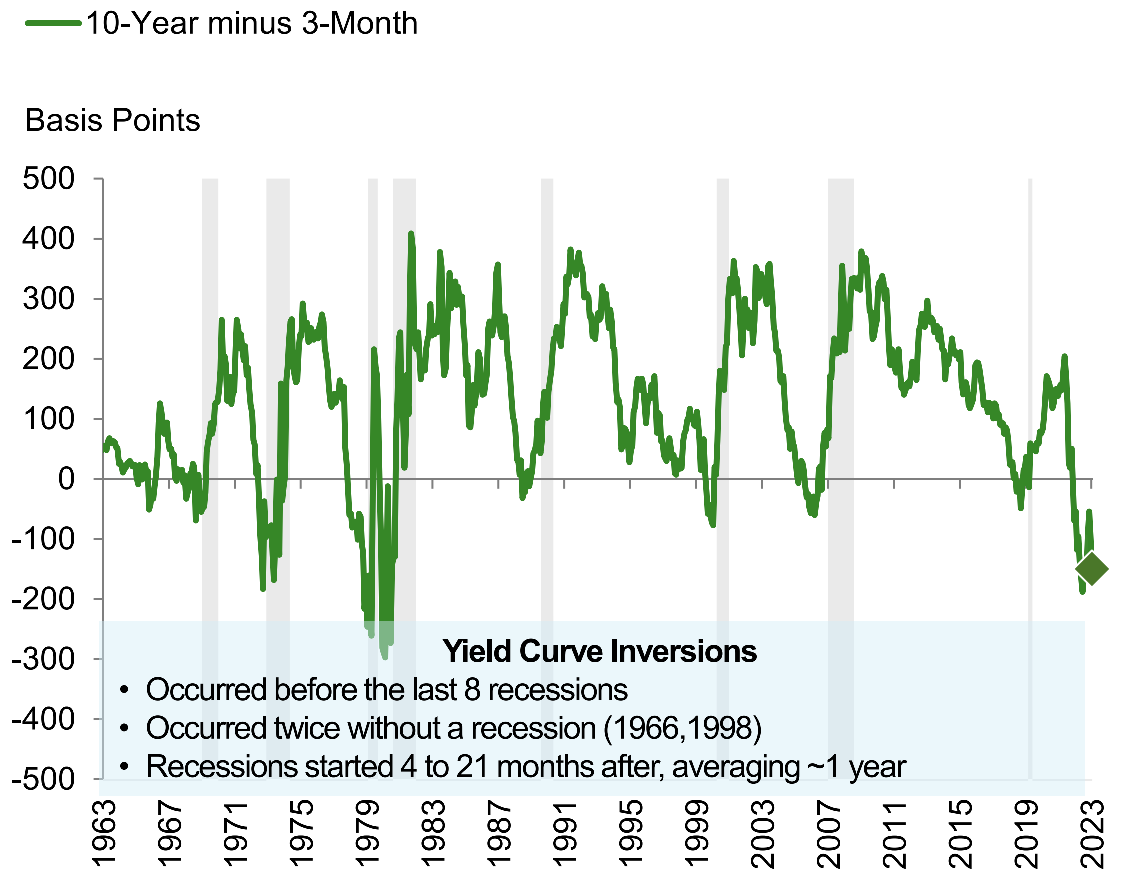



Left: Professional Inflation Expectations are a 3-month moving average of the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters' 5-year inflation expectations. Consumer 5-year Inflation Expectations are a 3-month moving average of the University of Michigan Consumer Survey of 5-year inflation expectations. Source: Federal Reserve Bank of New York, Federal Reserve Bank of Cleveland, Federal Reserve Bank of Philadelphia, University of Michigan, Macrobond, Fidelity Investments (AART), as of 11/30/23 (left) and 12/31/23 (right).

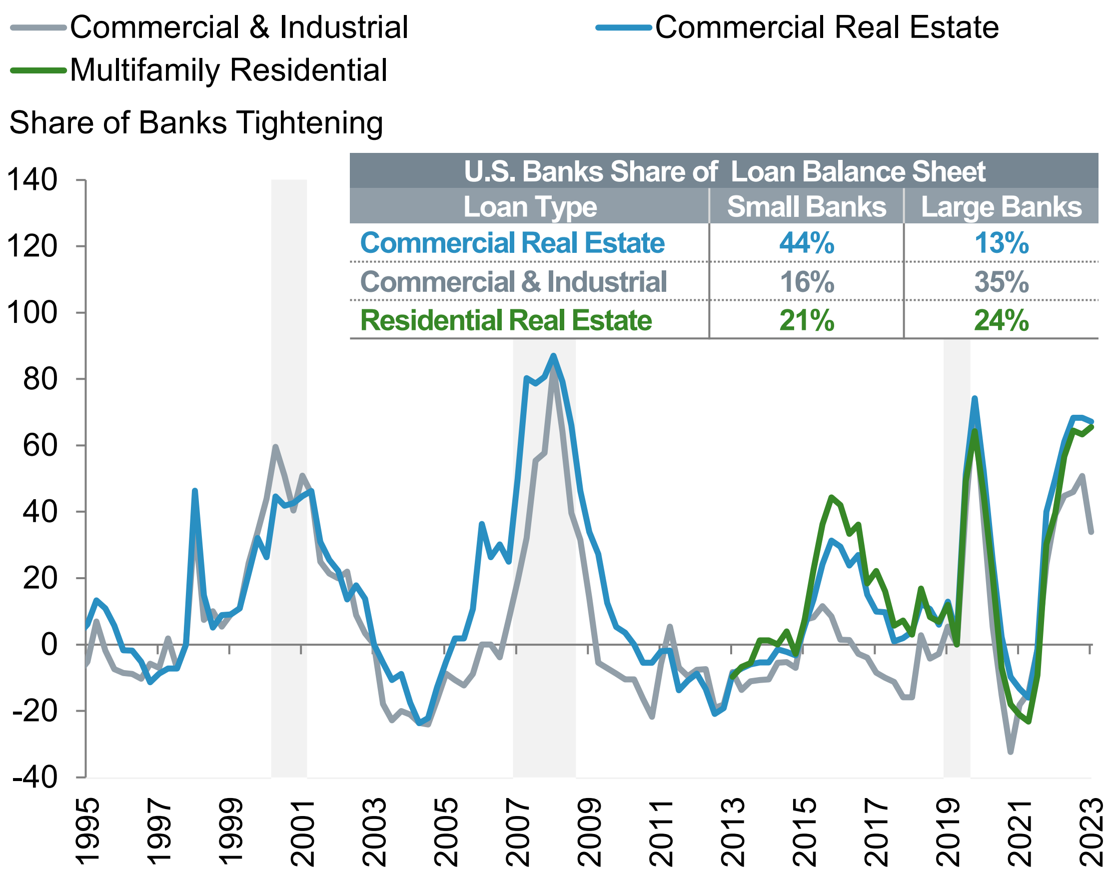
# Inverted curve, tighter credit typical of late-cycle expansion

**As is typical during late cycle, the yield curve is inverted and credit standards are tighter. Our preferred yield curve—the 10-year less 3-month Treasury yield—has been inverted for more than a year and tends to be a reliable leading indicator of recessions. Banks raised lending standards across multiple loan categories for the sixth consecutive quarter, although the share of banks tightening leveled off during Q4.**

### Treasury Yield Curve Spread




### U.S. Banks Lending Standards by Loan Type




| U.S. Banks Share of Loan Balance Sheet | | |
|---|---|---|
| Loan Type | Small Banks | Large Banks |
| Commercial Real Estate | 44% | 13% |
| Commercial & Industrial | 16% | 35% |
| Residential Real Estate | 21% | 24% |

Shaded areas denote U.S. recession. LEFT: Diamond depicts the last chart point (as of 12/31/23). Source: U.S. Federal Reserve Board, NBER, Haver Analytics, Fidelity Investments (AART), as of 12/31/23. RIGHT: Large Banks: Top 25 U.S. Domestically Chartered ranked by domestic assets. Source: Federal Reserve Board, NBER, Haver Analytics, Fidelity Investments (AART), as of 12/31/23.

# U.S. consumers remain in solid shape

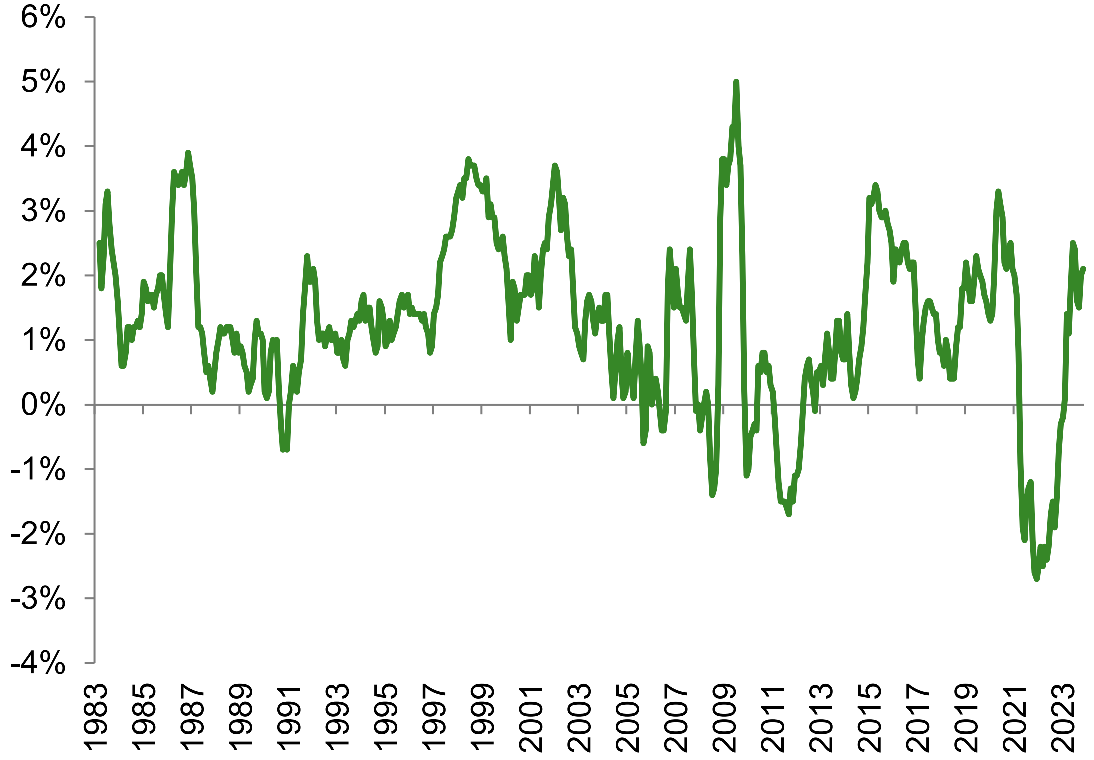


**U.S. consumers were supported by real wage gains in 2023 amid a tight labor market and ebbing inflation. Households have generally enjoyed strong balance sheets due to high housing and asset prices, and the long-term, fixed-rate structure of most mortgage borrowing helped insulate them from higher interest rates. However, delinquency rates on more flexible-rate loans moved above pre-pandemic levels.**

### Real Wage Growth

Wage Growth Minus Inflation

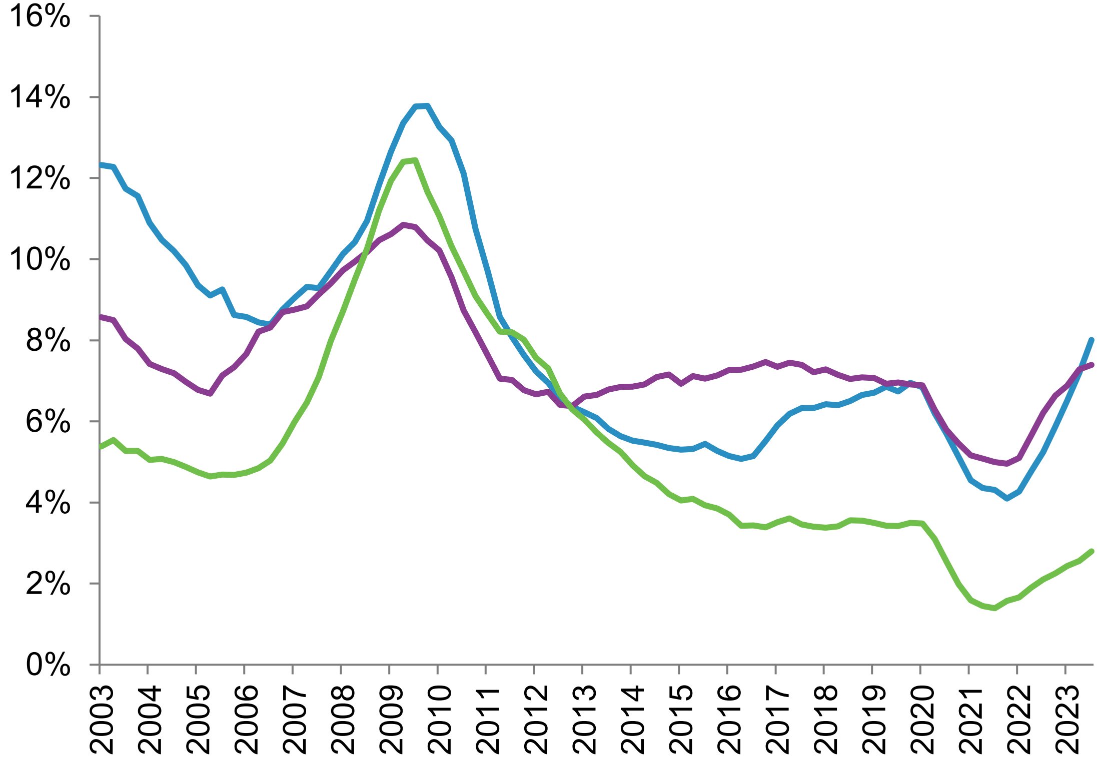
Year Over Year




### Consumer Loan Delinquency Rates

Credit Card Auto Mortgage

Percent of Balance

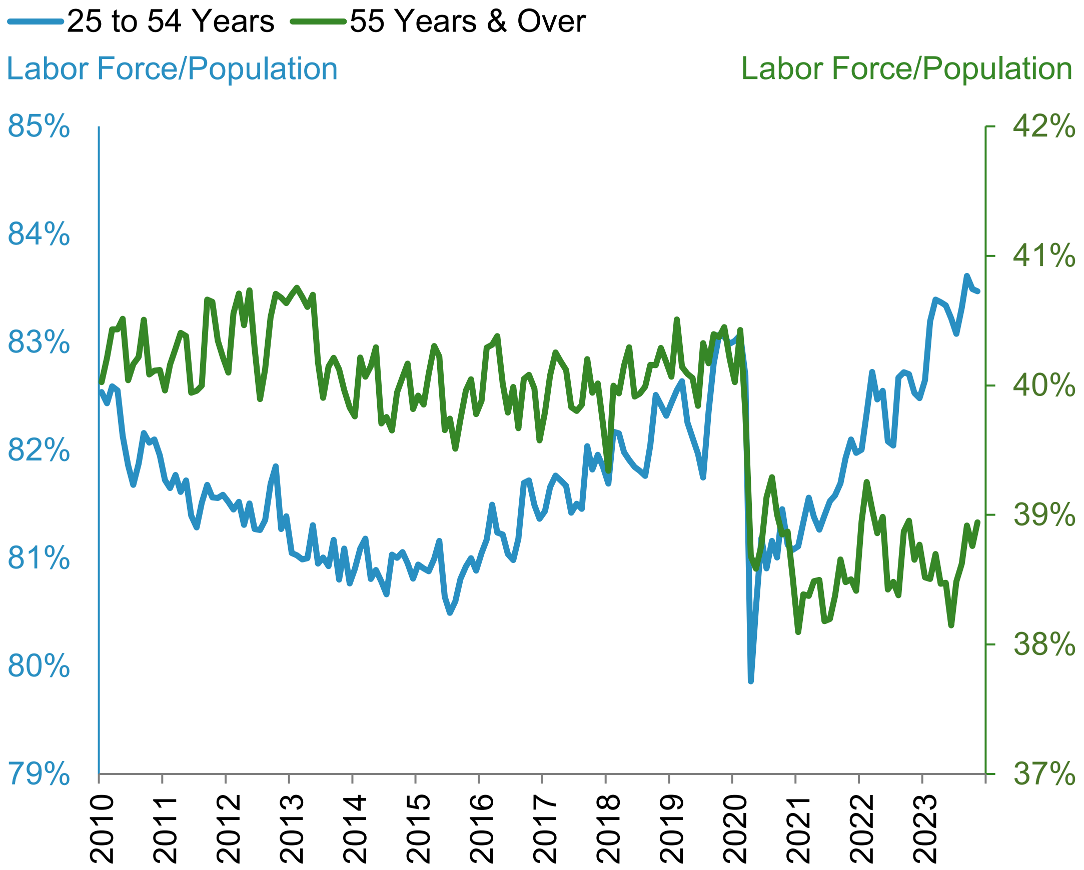



LEFT: Real Wage Growth: Atlanta Fed Wage Growth Tracker (Unweighted 3-month moving average) minus year-over-year CPI. Source: Federal Reserve Bank of Atlanta, Bureau of Labor Statistics, Macrobond, Fidelity Investments (AART), as of 12/31/23. RIGHT: Transition into Delinquency (30 days+). Source: Federal Reserve Bank of New York, Macrobond, Fidelity Investments (AART), as of 12/31/23.

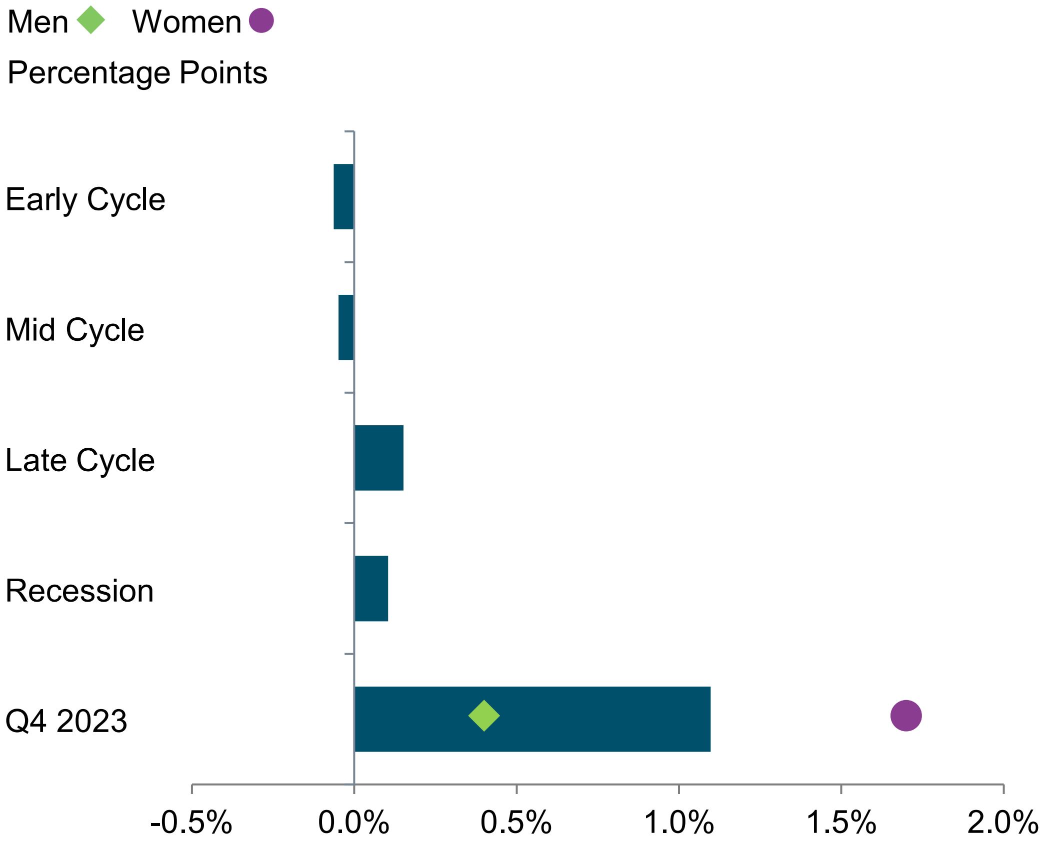
# Labor supply recovery may provide less help in 2024

**Labor participation rates (LPR) for prime-age workers climbed above pre-pandemic highs and provided some disinflationary relief to the still-tight employment conditions in 2023. However, the participation rate of above-55 workers may not recover, and the LPR for women has far exceeded our demographic estimates for a typical late-cycle overshoot. We believe this extended overshoot is symptomatic of a labor market nearing supply limits.**

### Labor Force Participation Rate by Age




### Participation Rate Overshoot vs. AART Demographic Model



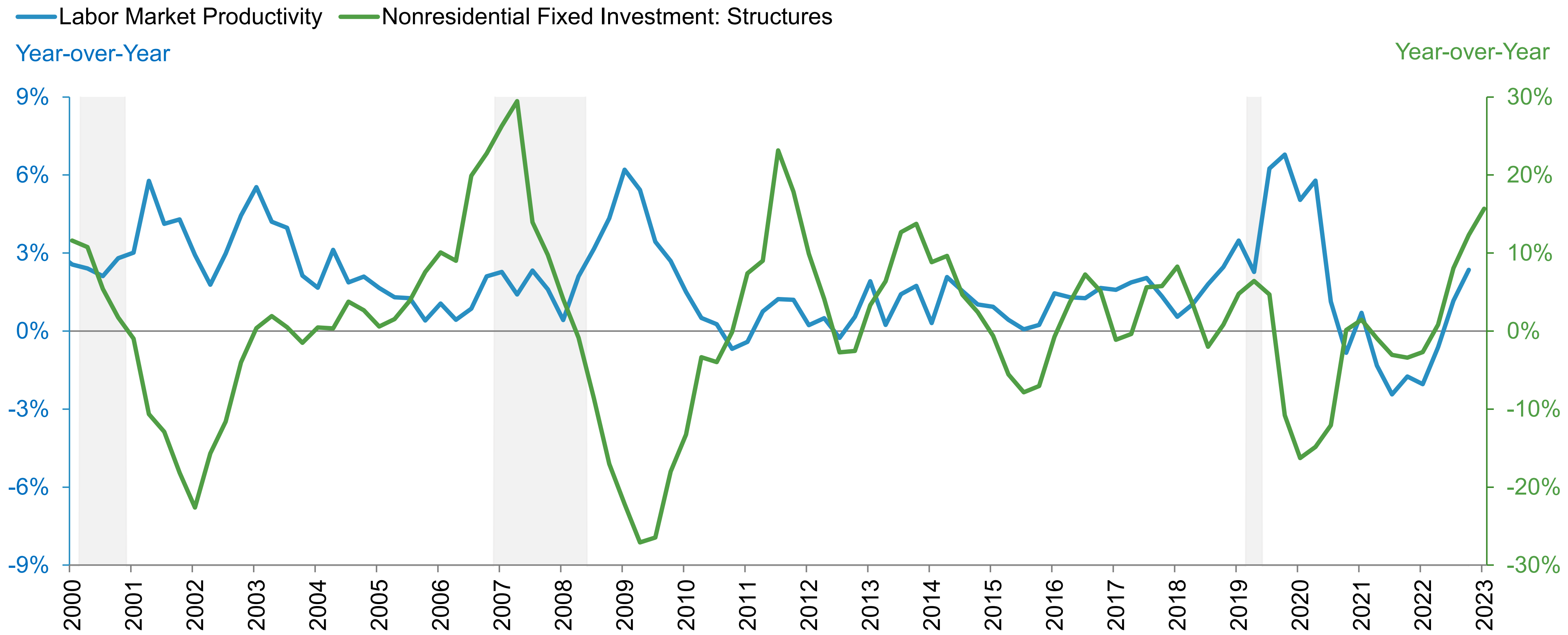

AART Demographic Model is a model-estimated participation rate based on the Civilian Labor Force and Civilian Noninstitutional Population by age group and gender. Q4 2023 shows overshoot as of 11/30/23. Source: Bureau of Labor Statistics, Macrobond, Fidelity Investments (AART) as of 11/30/23.

# Solid capital spending; productivity recovery?



**Capital expenditures by businesses, boosted by domestic manufacturing and AI initiatives, picked up as 2023 progressed. An acceleration in investment in structures likely reflected the reshoring trend that includes new-factory construction. Productivity growth also recovered, which could signal a bottom after a decade-long slump. Business investment may support the expansion, even if it takes multiple years to sustainably raise productivity rates.**

## Productivity vs. Capital Expenditures

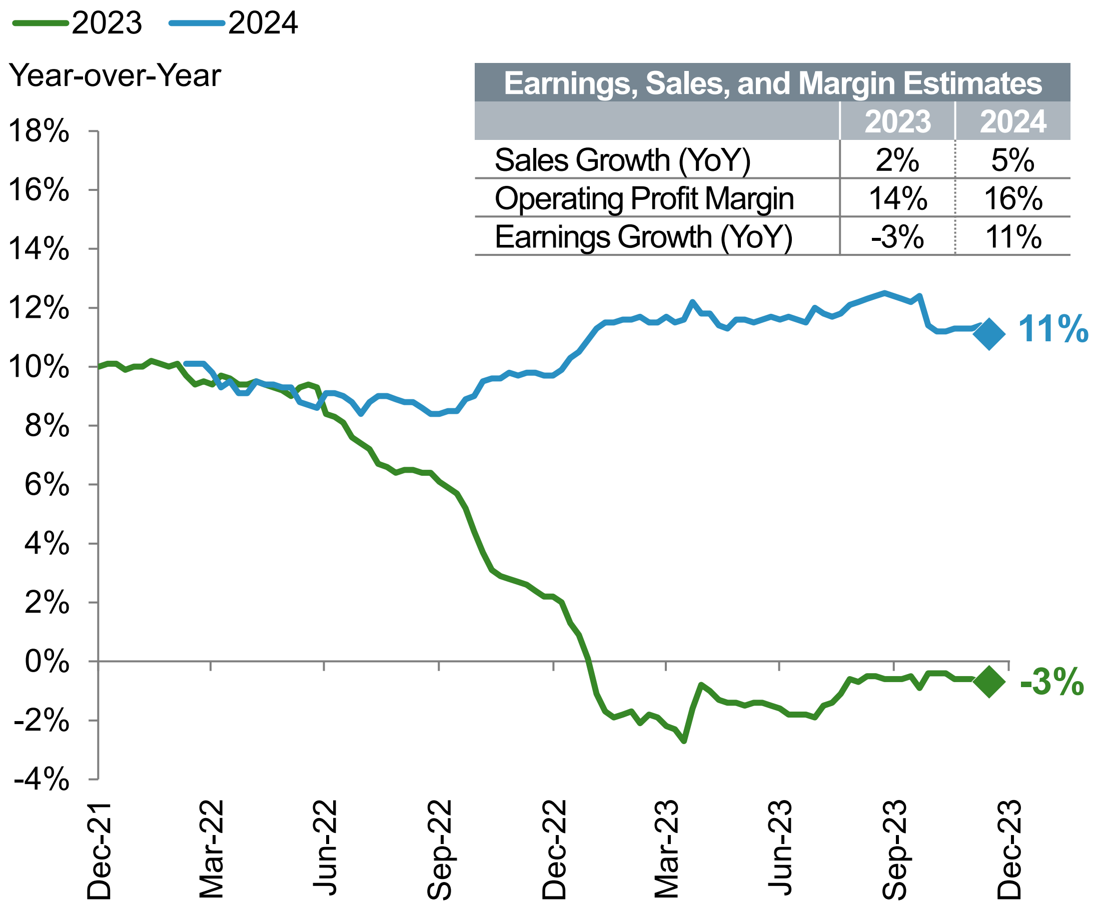



Nonresidential Fixed Investment is Real Private Nonresidential Fixed Investment for Structures: seasonally adjusted annual rate, chained to 2017 USD. Labor Market Productivity is the real output per hour of all persons in the nonfarm business sector: seasonally adjusted and indexed to 2017 = 100. Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Fidelity Investments (AART), as of 12/31/23.

# Stabilizing margins provide market optimism for 2024 earnings

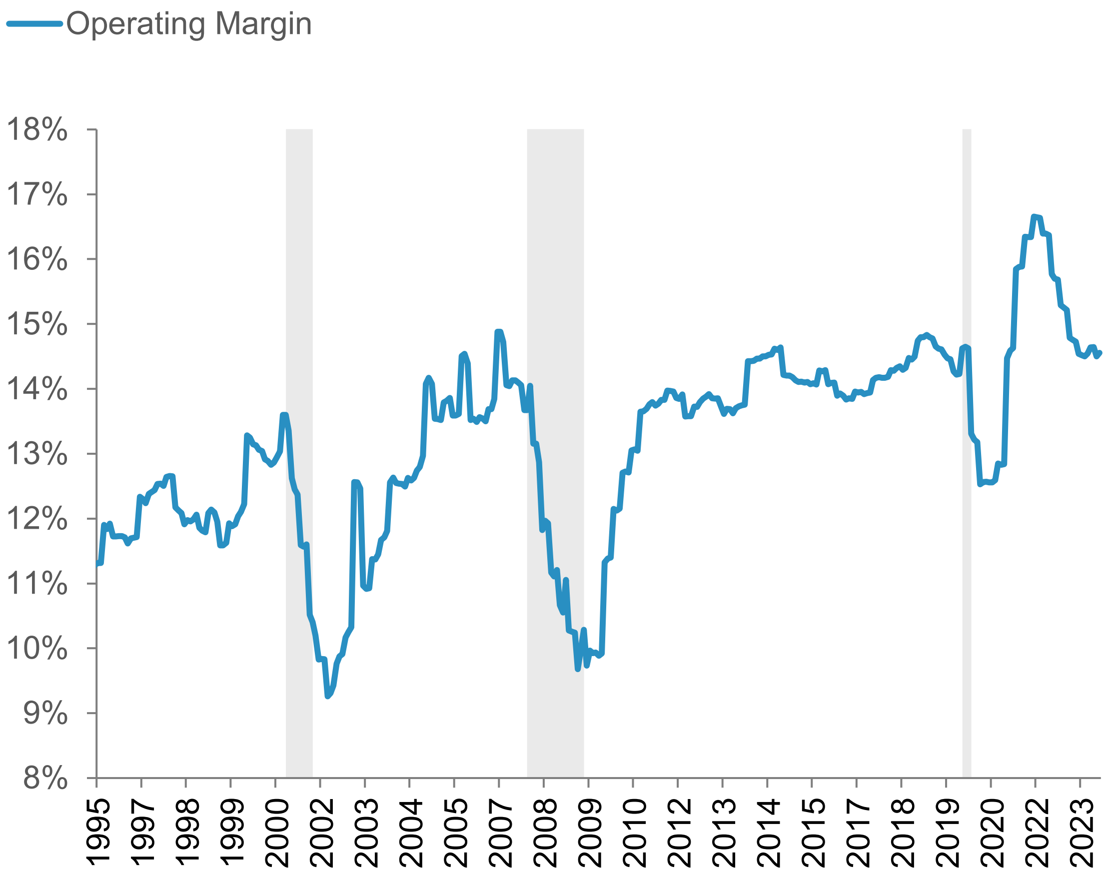
**Corporate earnings remained on pace for a slight contraction in 2023, but investors expect a double-digit rebound for earnings growth in 2024. After dropping from record-high levels, profit margins stabilized toward the end of 2023. With margins still at the upper end of their historical range and signs of diminishing pricing power, the ability of companies to maintain or expand margins will be key to the outlook.**

### S&P 500 Earnings Growth Expectations




| Earnings, Sales, and Margin Estimates | | |
|---|---|---|
| | 2023 | 2024 |
| Sales Growth (YoY) | 2% | 5% |
| Operating Profit Margin | 14% | 16% |
| Earnings Growth (YoY) | -3% | 11% |

### S&P 500 Profit Margins

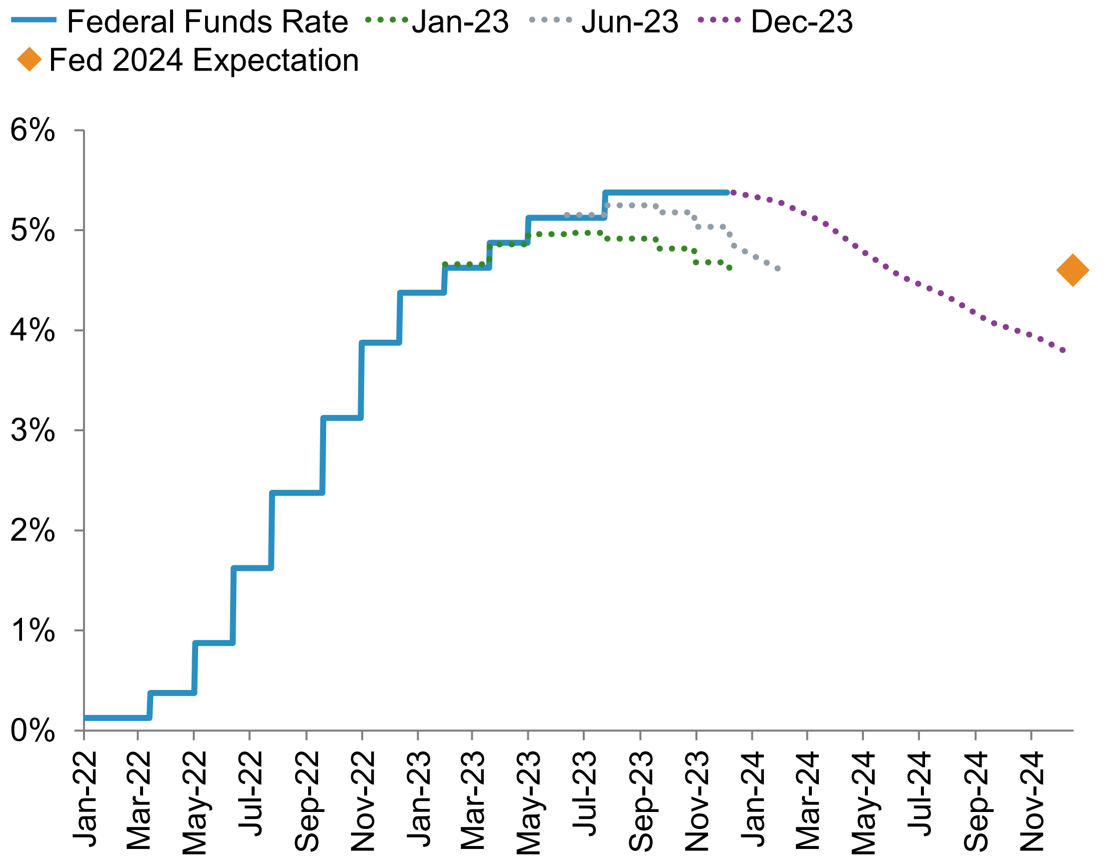



LEFT: Street estimates. Source: Bloomberg Financial LP, Fidelity Investments (AART), as of 12/31/23. RIGHT: Source: FactSet, Fidelity Investments (AART), as of 12/31/23.

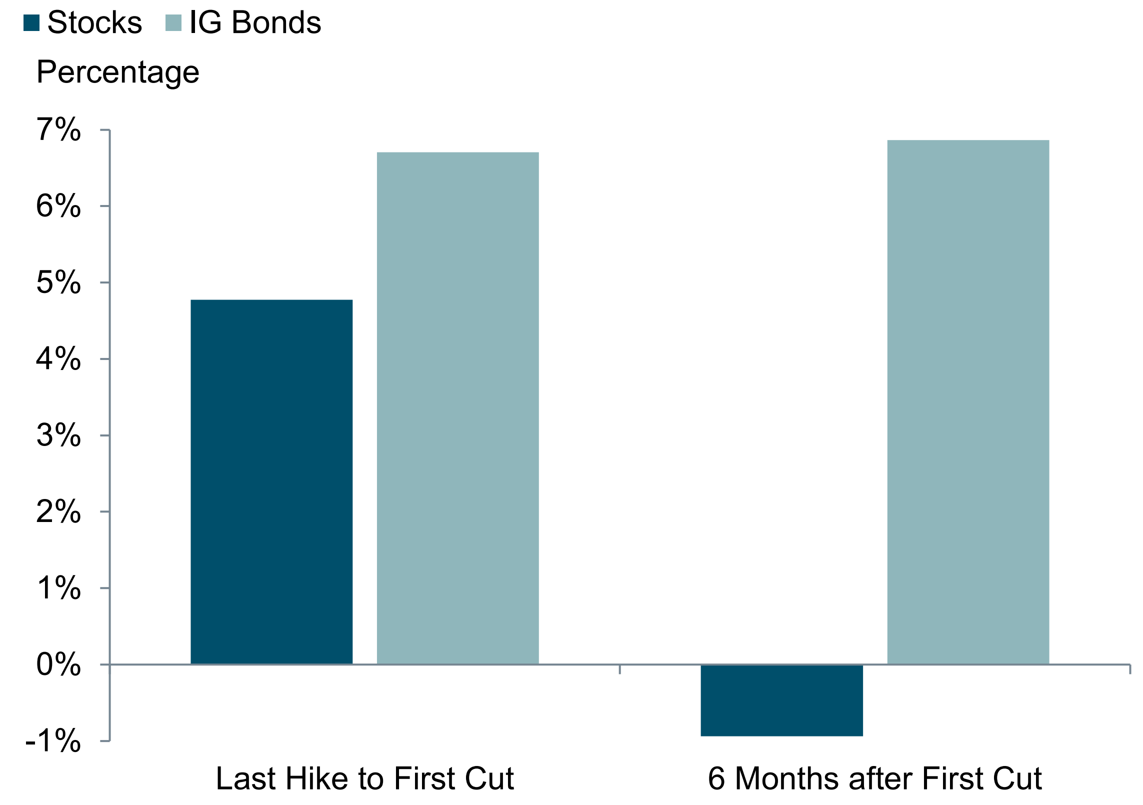
# Fed signaled shift to easing policy in 2024

**After nearly two years of rate hikes, the Fed signaled at the end of 2023 that it expected to shift toward easing. Historically, stocks and bonds both rallied in the period between the last hike and the first cut, but in the 6-months after the first cut, bonds outperformed stocks. As of the end of 2023, the market forecasted more than 150 basis points of rate cuts in 2024, which may be a challenge unless the economy slows more than expected.**

### Fed Funds Rate Expectations




### Asset Class Returns Around Fed's Last Hike & First Cut (1969–2023)



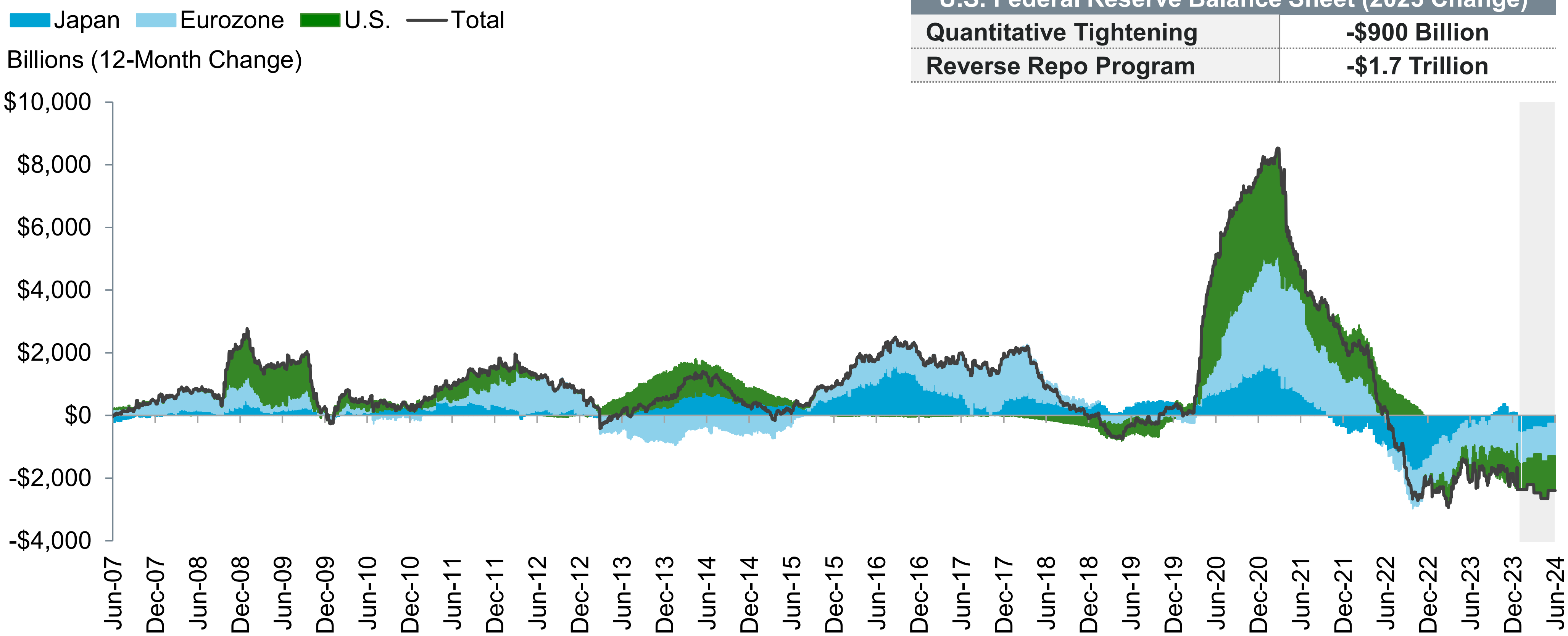

LEFT: Dotted lines represent Fed funds rate expectations using OIS swaps, Fed 2024 Expectation from the Fed's December Summary of Economic Projections. Source: Bloomberg Finance L.P., Federal Reserve Board, Fidelity Investments (AART), as of 12/31/23. RIGHT: Stocks: Dow Jones Total Stock Market, Federal Reserve Board, Bonds: Bloomberg U.S. Aggregate Bond, Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# Central bank tightening may start to pressure market liquidity

**Major central banks continued to remove accommodation by shrinking their balance sheets through quantitative tightening (QT), which typically reduces financial-market liquidity. In the U.S., less participation in the Fed's Reverse Repo program injected cash into the system, which more than offset QT in 2023. With this one-off factor closer to being exhausted, the U.S. liquidity backdrop may be more challenged in 2024, potentially contributing to higher volatility.**



### Central Bank Balance Sheets



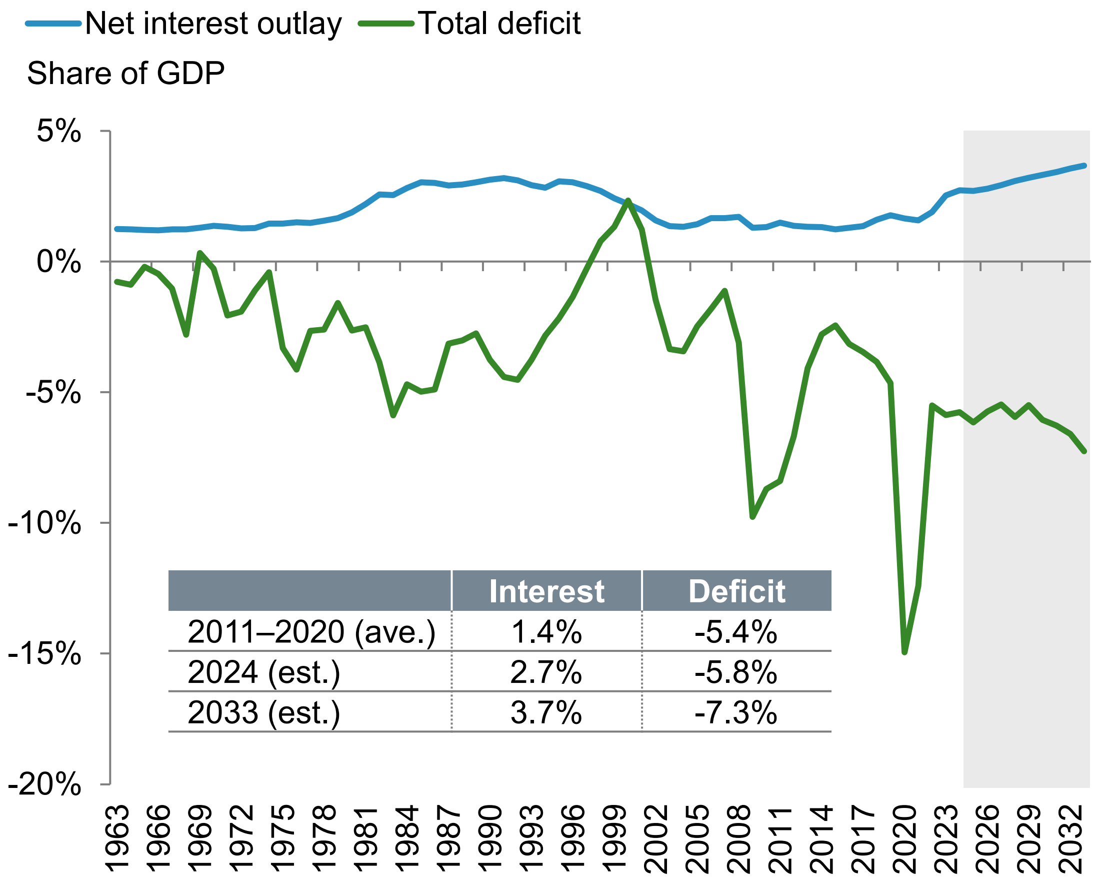

| U.S. Federal Reserve Balance Sheet (2023 Change) | |
|---|---|
| Quantitative Tightening | -$900 Billion |
| Reverse Repo Program | -$1.7 Trillion |

Quantitative Tightening is the change in total securities held on the Fed's balance sheet. Shaded area represents estimates based on the U.S. Federal Reserve conducting $85 billion of QT per month, the European Central Bank conducting 20 billion Euro of QT per month and redeeming Targeted Long-Term Refinancing Operations throughout 2024 based on expected loan maturities, and the Bank of Japan purchasing assets at an average of the prior six months. Source: Federal Reserve, Bank of Japan, European Central Bank, Macrobond, Fidelity Investments (AART) as of 12/31/23.

# Fiscal policy cyclically neutral but long-term challenged

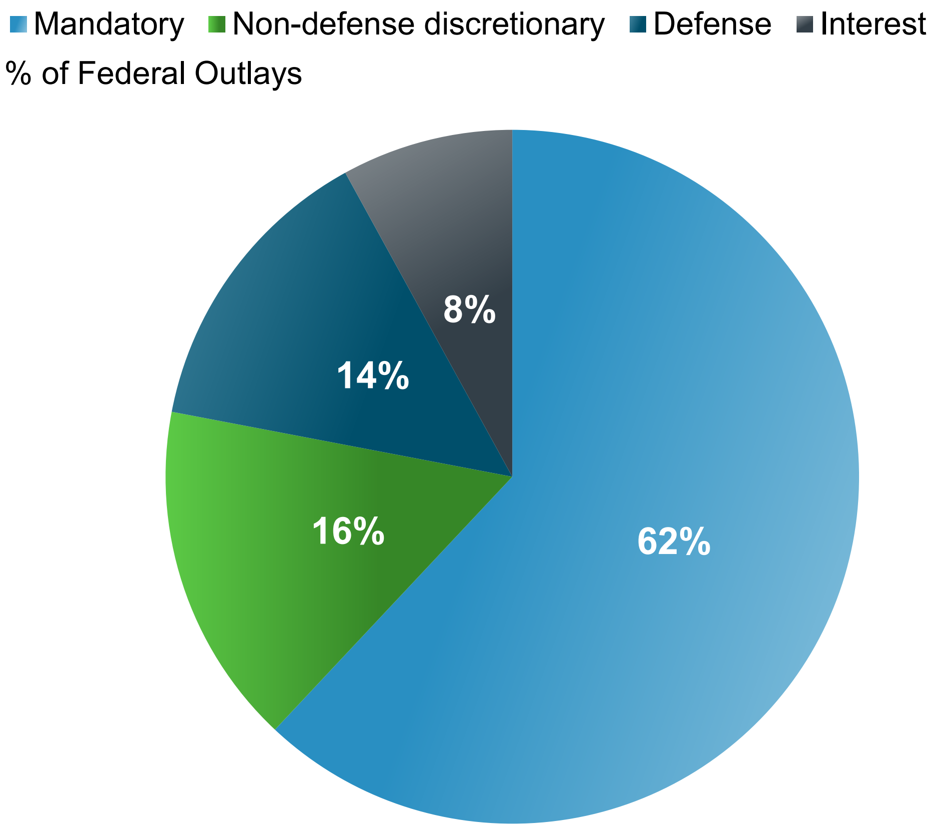
**Based on government projections, the deficit outlook for fiscal-year 2024 is relatively neutral in terms of its impact on economic growth. However, the medium-term fiscal picture is increasingly challenging, as rising interest payments are forecast to cause deficits to climb over the next decade. Politically, spending cuts have become difficult as mandatory outlays on entitlement programs assume a larger share of fiscal expenses.**

## U.S. Government Interest Payments and Deficit




| | Interest | Deficit |
|---|---|---|
| 2011–2020 (ave.) | 1.4% | -5.4% |
| 2024 (est.) | 2.7% | -5.8% |
| 2033 (est.) | 3.7% | -7.3% |

## Categories of Federal Spending, FY 2023




LEFT: Shaded area represents deficit baseline from the CBO. Primary deficit is the total deficit minus the net interest outlay. Source: Congressional Budget Office, Macrobond, Fidelity Investments (AART), as of 5/12/23. RIGHT: FY is fiscal year. Source: Congressional Budget Office, Fidelity Investments (AART), as of 5/31/23.

# Outlook: Market assessment

**Fidelity's Business Cycle Board, composed of portfolio managers across a variety of asset-allocation strategies, believes the above-target inflation and lagged impact of tighter monetary policy backdrop contribute to an uncertain economic and capital markets outlook for 2024. Members held differing views on the path of growth and rates but generally held smaller active allocation positions compared with earlier in the cycle.**

## Business Cycle

U.S. in late-cycle expansion phase

Non-U.S. cycles are becoming desynchronized, with higher rates challenging growth in some countries

## Risks

Inflation may remain above the Fed's target over the medium term

Corporate earnings remain challenged by slowing growth, above-target high inflation, and monetary tightening

## Asset Allocation Implications

The late-cycle phase warrants smaller active allocation positions

Most members view fixed income assets as attractive

Security selection may present additional return opportunities

For illustrative purposes only. Diversification does not ensure a profit or guarantee against a loss. Source: Fidelity Investments (AART), as of 12/31/23.

# Asset markets

# U.S. tech and growth stocks headlined global asset rally



**Almost all major global market categories registered a solid rally in Q4 and ended 2023 with positive returns. U.S. stocks led the way, with technology and growth stocks at the top. Non-U.S. stocks also rallied in Q4, with Latin America up sharply to end a strong 2023. After languishing during most of 2023, fixed income rebounded during Q4 as yields fell, and riskier credit categories finished as the year's best performers.**

## U.S. Equity Styles Total Return

| | Q4 2023 | 2023 |
|---|---|---|
| Growth | 14.1% | 41.2% |
| Large Caps | 11.7% | 26.3% |
| Mid Caps | 12.8% | 17.2% |
| Small Caps | 14.0% | 16.9% |
| Value | 9.8% | 11.7% |

## U.S. Equity Sectors Total Return

| | Q4 2023 | 2023 |
|---|---|---|
| Info Tech | 17.2% | 57.8% |
| Communication Services | 10.9% | 55.8% |
| Consumer Discretionary | 12.4% | 42.3% |
| Industrials | 13.0% | 18.1% |
| Materials | 9.7% | 12.5% |
| Real Estate | 18.8% | 12.3% |
| Financials | 14.0% | 12.1% |
| Health Care | 6.4% | 2.1% |
| Consumer Staples | 5.5% | 0.5% |
| Energy | -7.0% | -1.4% |
| Utilities | 8.6% | -7.1% |

## Non-U.S/Global Assets Total Return

| | Q4 2023 | 2023 |
|---|---|---|
| ACWI ex-USA | 9.8% | 15.6% |
| Japan | 8.2% | 20.3% |
| Europe | 11.1% | 19.9% |
| EAFE | 10.4% | 18.2% |
| Canada | 11.2% | 15.4% |
| EAFE Small Cap | 11.1% | 13.2% |
| Latin America | 17.6% | 32.7% |
| Emerging Markets | 7.9% | 9.8% |
| EMEA | 8.4% | 8.2% |
| EM Asia | 6.7% | 7.8% |
| Gold | 11.6% | 13.1% |
| Commodities | -4.6% | -7.9% |

## U.S. Equity Factors Total Return

| | Q4 2023 | 2023 |
|---|---|---|
| Momentum | 13.8% | 25.0% |
| Quality | 10.5% | 24.4% |
| Yield | 10.7% | 18.3% |
| Value | 9.0% | 18.2% |
| Size | 12.6% | 17.6% |
| Low Volatility | 9.2% | 16.6% |

## Fixed Income Total Return

| | Q4 2023 | 2023 |
|---|---|---|
| High Yield | 7.1% | 13.5% |
| Leveraged Loan | 2.9% | 13.3% |
| EM Debt | 9.2% | 11.1% |
| Credit | 8.2% | 8.2% |
| Long Govt & Credit | 13.2% | 7.1% |
| Municipal | 7.9% | 6.4% |
| ABS | 3.5% | 5.5% |
| Aggregate | 6.8% | 5.5% |
| CMBS | 5.2% | 5.4% |
| Agency | 3.7% | 5.1% |
| MBS | 7.5% | 5.0% |
| Treasuries | 5.7% | 4.1% |
| TIPS | 4.7% | 3.9% |

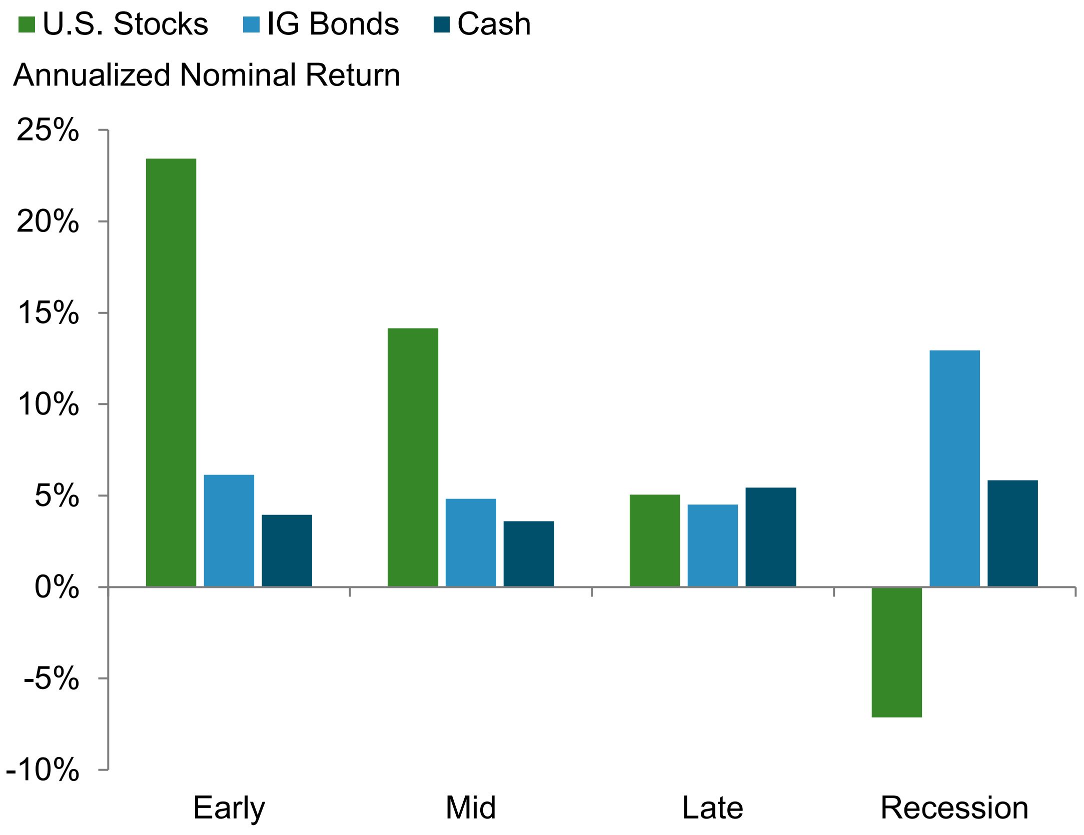
EAFE: Europe, Australasia, and the Far East. EM: Emerging markets. EMEA: Europe, the Middle East, and Africa. For indexes and other important information used to represent above asset categories, see Appendix. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Sector returns represented by S&P 500 sectors. Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in more diversified baskets of securities. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# Business cycle important but dissipates in the long run

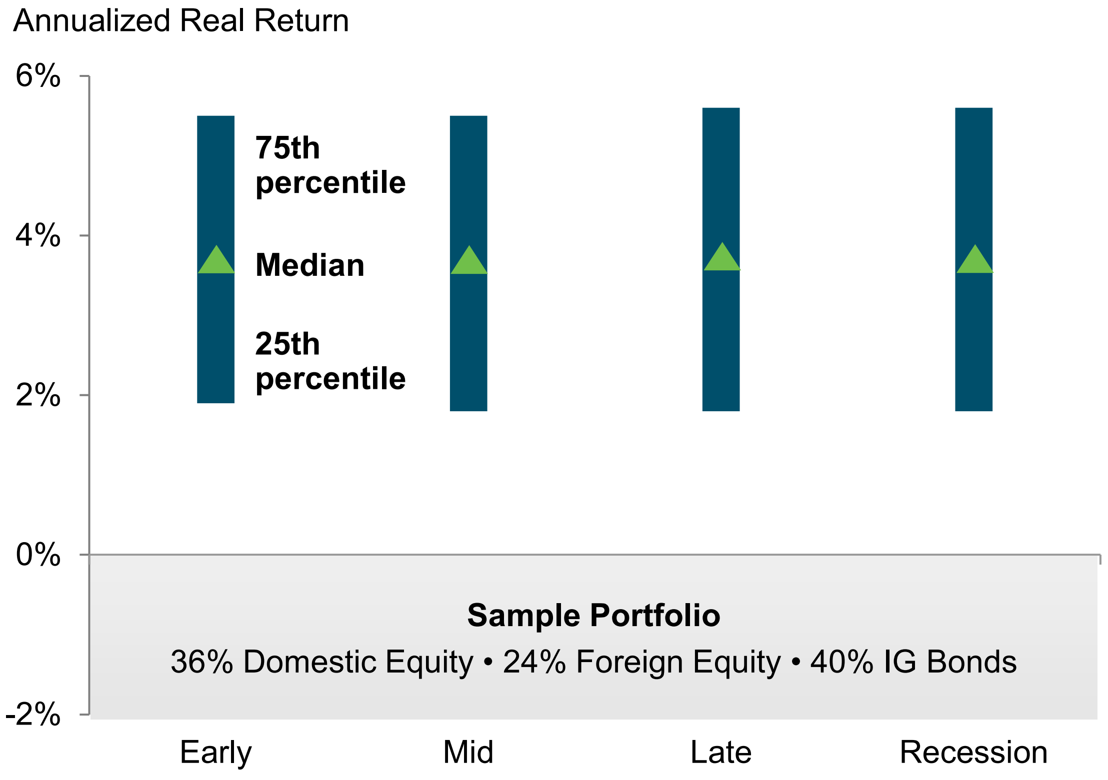


**The business cycle can be a critical determinant of asset performance over the intermediate term. Stocks have consistently outperformed earlier in the cycle, whereas bonds tend to outperform during recessions. While we believe a business cycle approach to actively managed asset allocation can add value, portfolio returns are expected to even out over the long term (20 years), regardless of the starting point of the cycle phase.**

### Asset Class Performance by Cycle Phase (1950–2020)




### 20-Year Portfolio Return Distribution by Cycle Phase Starting Point




For illustrative purposes only. Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Fidelity proprietary analysis based on Monte Carlo simulations using historical index returns. Domestic Equity—Dow Jones U.S. Total Stock Market Index; Foreign Equity—MSCI ACWI ex USA Index; Investment-Grade (IG) Bonds—Bloomberg U.S. Aggregate Bond Index. Source: Fidelity Investments, Morningstar, Bloomberg Finance L.P., as of 12/31/23.

# What high inflation implies for a maturing business cycle

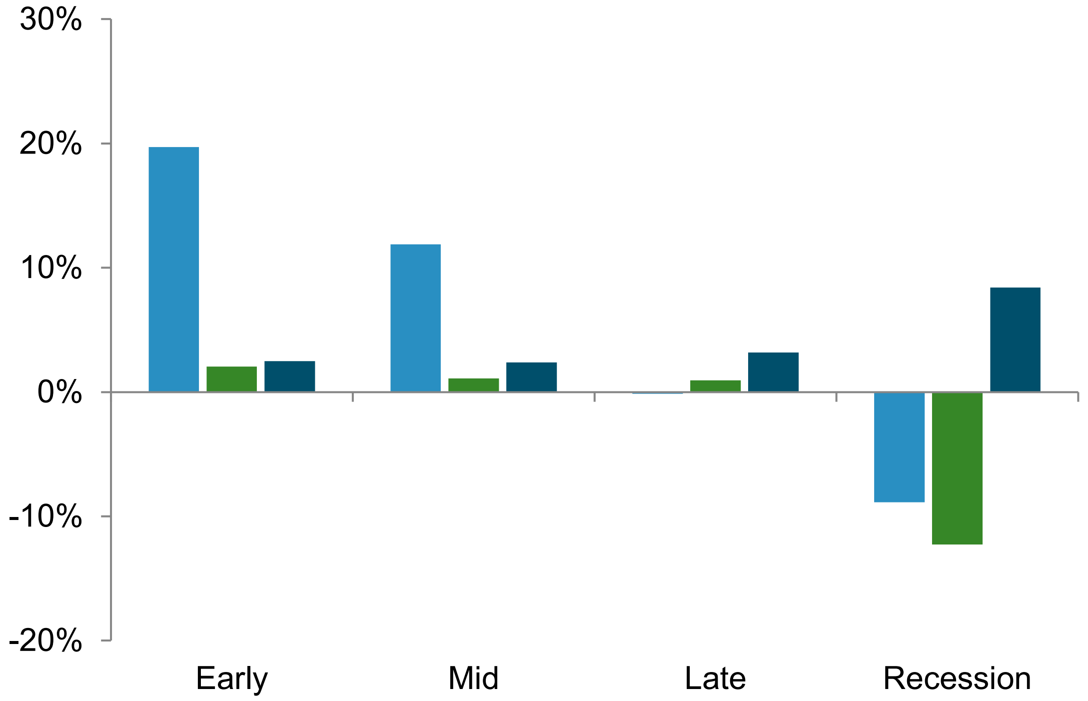
**Unlike recent business cycles, high inflation has taken root. Historically, during high-inflation regimes, commodities tended to perform better than bonds during late-cycle expansion. However, fixed income tended to outperform once recession risk became dominant. Tilting a portfolio toward more-defensive exposures during recessions may provide diversification benefits regardless of the inflation regime.**



**Real Returns in Low-Inflation Regimes (1950–2020)**

U.S. Equities | Commodities | Investment-Grade Bonds

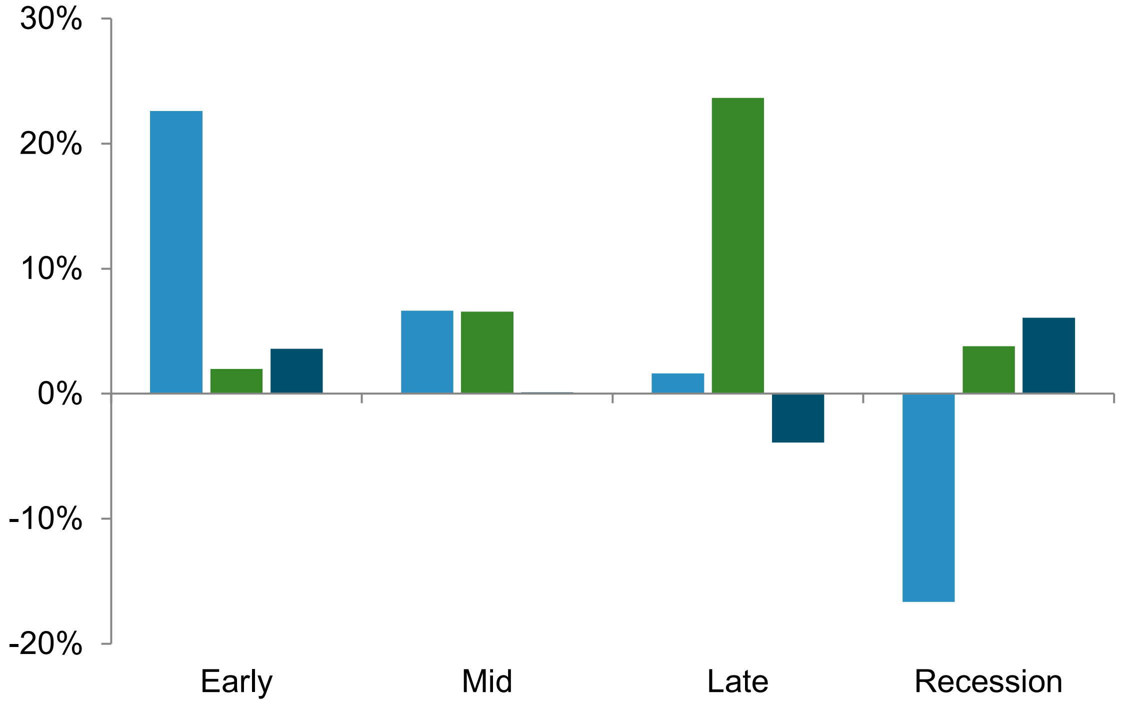
Annualized Average Real Return




**Real Returns in High-Inflation Regimes (1950–2020)**

U.S. Equities | Commodities | Investment-Grade Bonds

Annualized Average Real Return



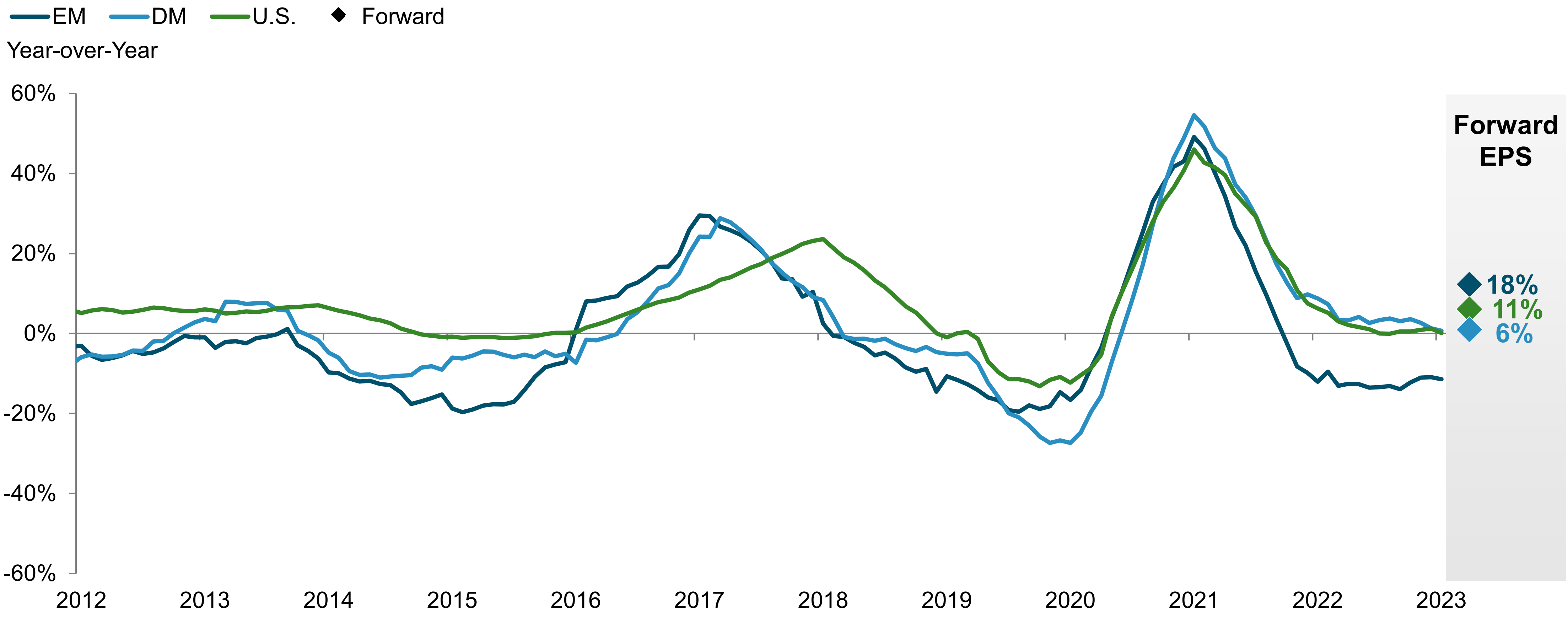

For illustrative purposes only. Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss. It is not possible to invest directly in an index. See Appendix for important index information. Fidelity proprietary analysis using historical index returns. Domestic Equity—Dow Jones U.S. Total Stock Market Index; Commodities—Bloomberg Commodity Total Return Index; Investment-Grade (IG) Bonds—Bloomberg U.S. Aggregate Bond Index. Source: Fidelity Investments (AART), as of 12/31/23. Regimes: A period is categorized as a high-inflation regime if the secular component is greater than the long-term average inflation, or a low-inflation regime otherwise.

# Global earnings stabilization

**Global earnings growth continued to show signs of stabilizing during Q4 as the U.S. and Developed Non-U.S. regions posted flattish year-over-year growth. Emerging markets remained laggards, with a double-digit earnings contraction on a year-over-year basis. Investors anticipate a rebound in earnings growth in 2024 across the world.**



**Global EPS Growth (Trailing 12 Months)**



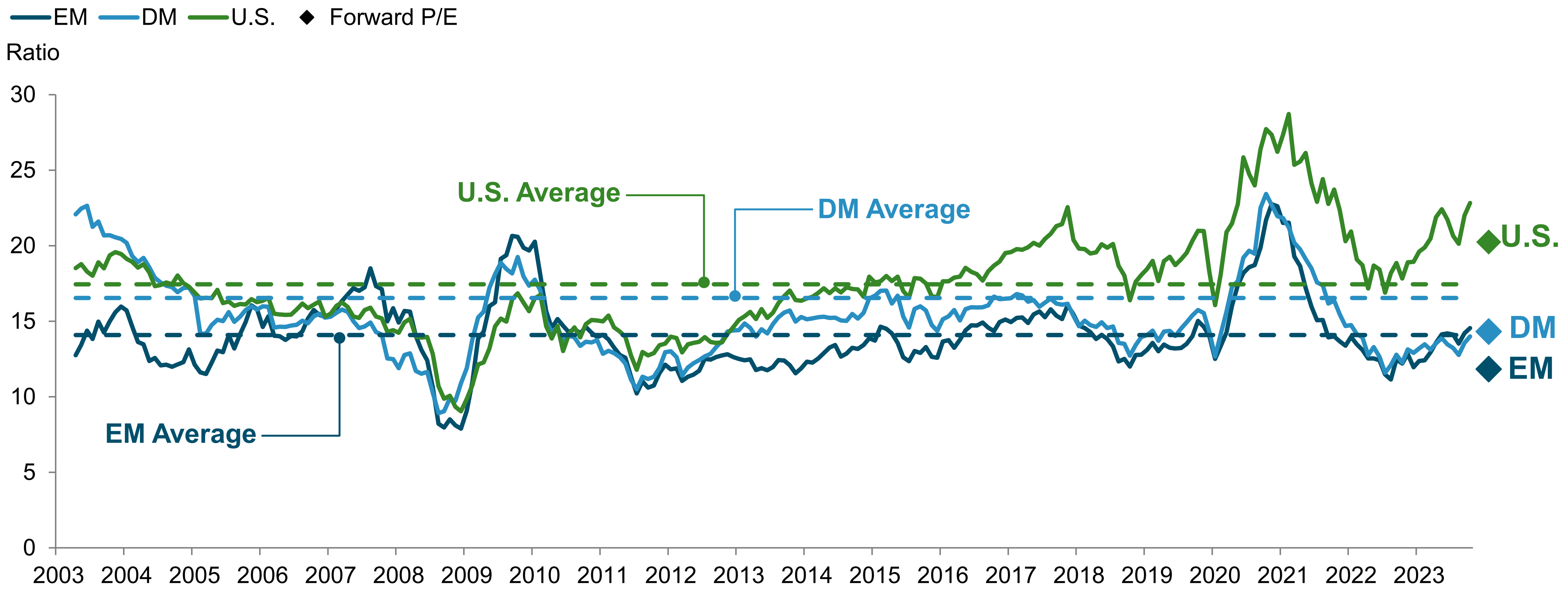

Past performance is no guarantee of future results. DM: Developed markets. EM: Emerging markets. EPS: Earnings per share. Forward EPS: Next 12 months' expectations. Indexes: DM—MSCI EAFE Index; EM—MSCI Emerging Markets Index; U.S.—S&P 500. Source: MSCI, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# Equity valuations rose, non-U.S. still relatively attractive

**Valuations became somewhat more expensive as stocks rallied in Q4, especially for the U.S. The trailing one-year price-to-earnings (PE) ratio for U.S. stocks stayed above its long-term average while non-U.S. stock (developed markets and emerging markets) valuations remained at or below their long-term averages.**



## Global Stock Market P/E Ratios



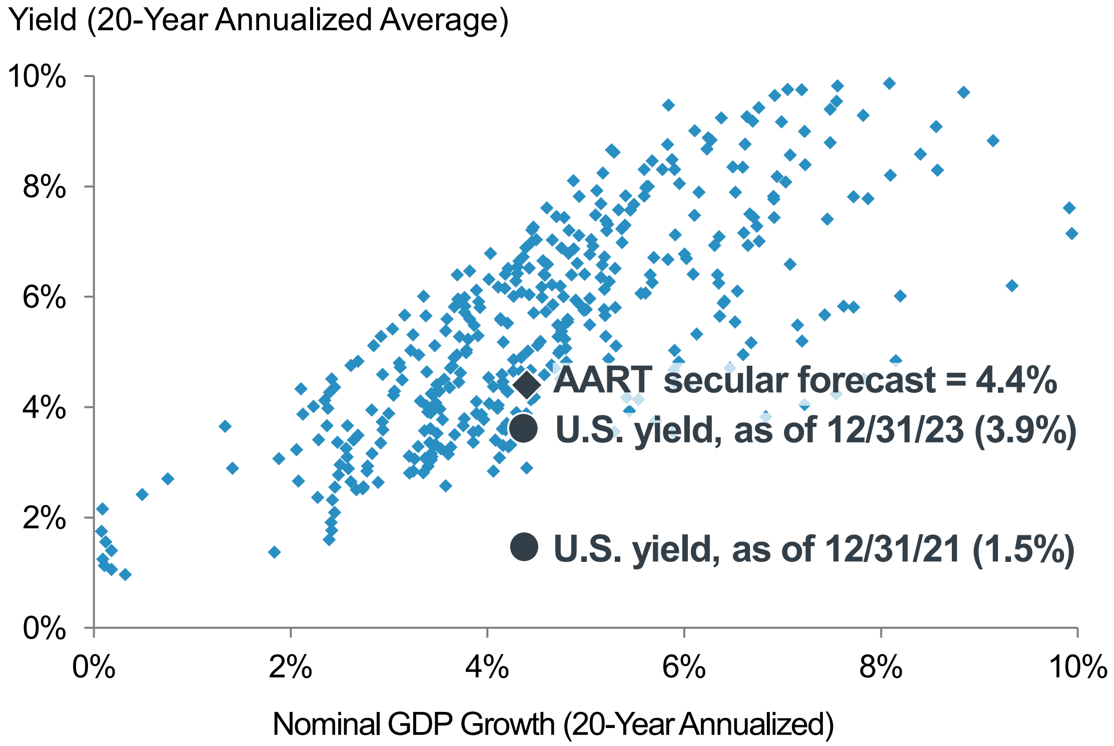

DM: Non-U.S. developed markets. EM: Emerging markets. Chart includes trailing 12-month P/Es. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Price-to-earnings (P/E) ratio (or multiple): Stock price divided by earnings per share, which indicates how much investors are paying for a company's earnings power. Long-term average P/E includes data from 12/31/2003 to 12/31/2023. Indexes: DM—MSCI EAFE Index; EM—MSCI Emerging Markets Index; U.S.—S&P 500. Source: FactSet, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# Relative valuations may provide opportunities ahead

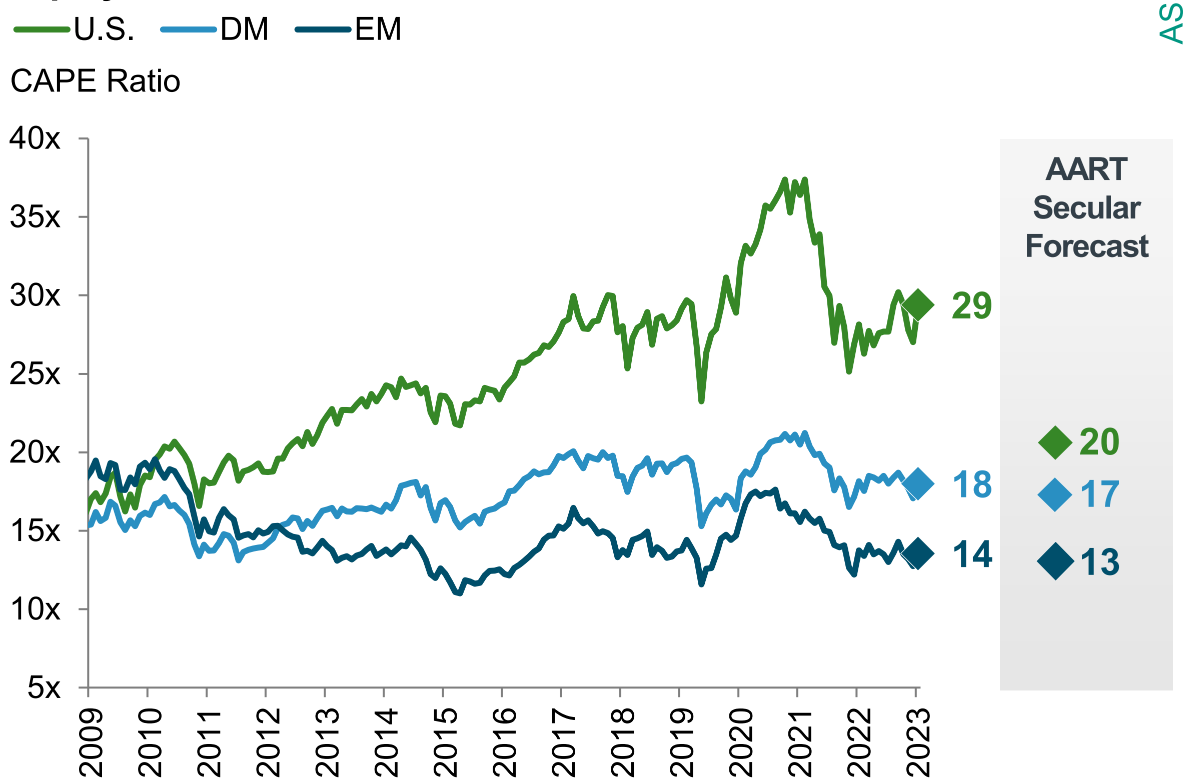
**Based on our long-term valuation metrics, some assets appear relatively attractive even after the 2023 stock market rally. Ten-year Treasury yields are now slightly below our secular forecast of 4.4%, but bond valuations remain favorable compared to the past decade and relative to equities. Cyclically adjusted price-to-earning ratios for non-U.S. stock markets appear relatively attractive.**



**10-Year Sovereign Bond Yields vs. GDP**




**Equity Valuations**

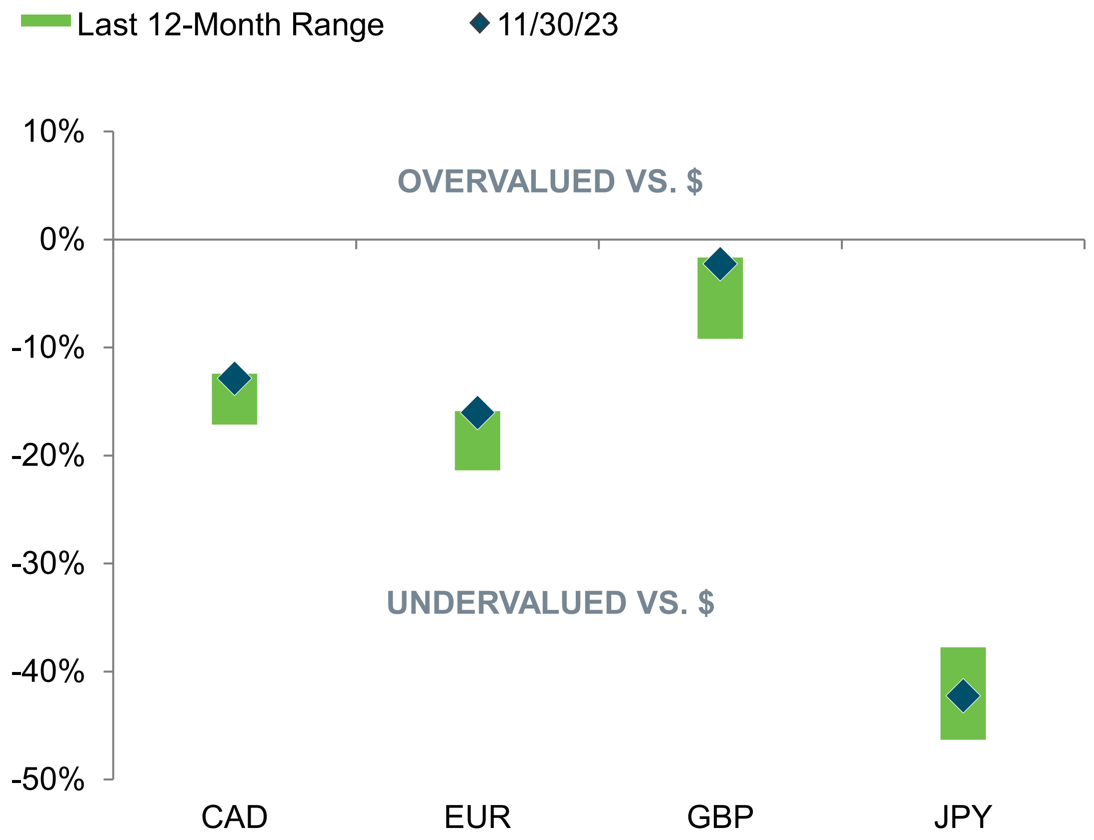



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. LEFT: Highlighted dots are U.S. 10-year Treasury bond yields. AART secular forecast refers to an estimate for U.S. nominal GDP (4.4%). Source: Official Country Estimates, Haver Analytics, Fidelity Investments (AART), as of 12/31/23. RIGHT: DM: Developed markets. EM: Emerging markets. Price-to-earnings (P/E) ratio (or multiple): Stock price divided by earnings per share, which indicates how much investors are paying for a company's earnings power. Cyclically adjusted earnings are 10-year averages adjusted for inflation. Source: FactSet, countries' statistical organizations, MSCI, Fidelity Investments (AART), as of 11/30/23.

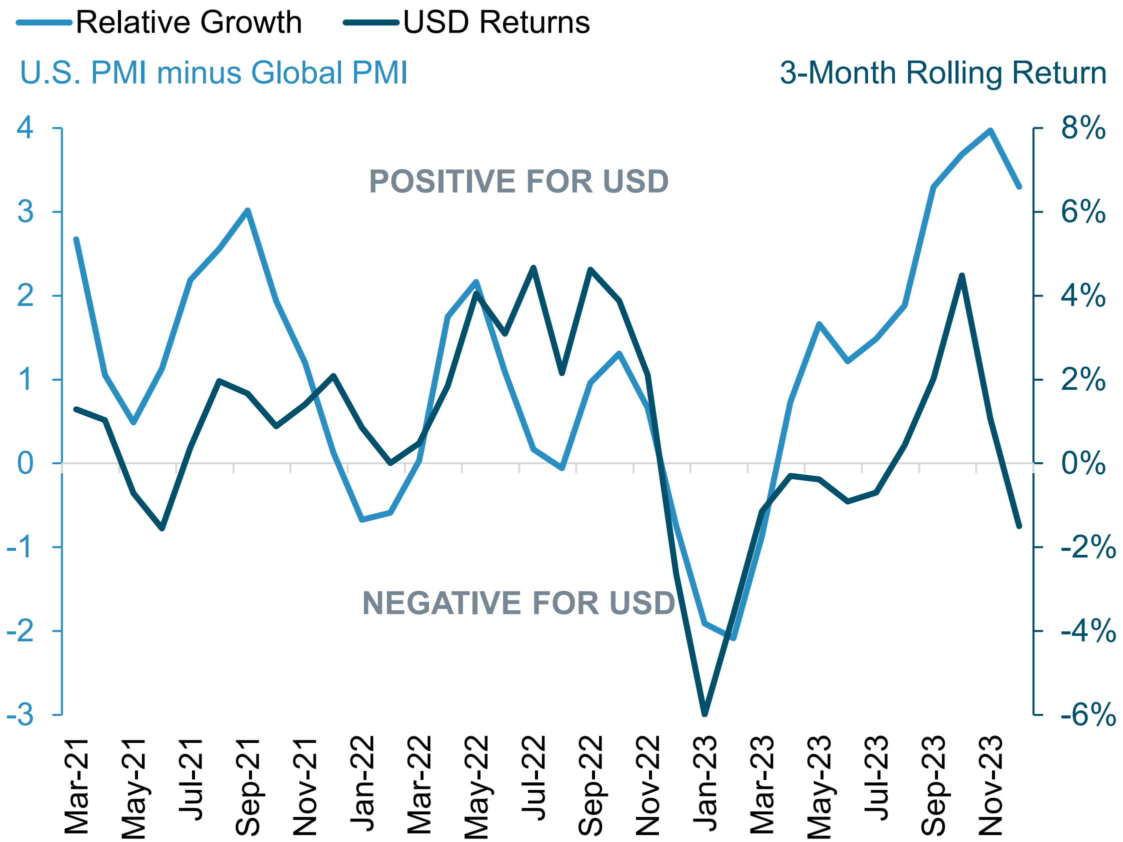
# Dollar flattish in 2023; non-U.S. currencies inexpensive

**Despite entering 2023 at a relatively expensive valuation, the U.S. dollar was bolstered throughout the year by the solid U.S. growth backdrop. However, the Q4 disconnect between solid relative U.S. growth and weaker dollar performance could imply greater headwinds for the dollar in 2024. Most major non-U.S. currencies, particularly the Japanese yen, remained undervalued, which suggests they might provide portfolio diversification benefits.**

**FX Valuation: Purchasing Power Parity (PPP)**




**Growth Influences on U.S. Dollar**

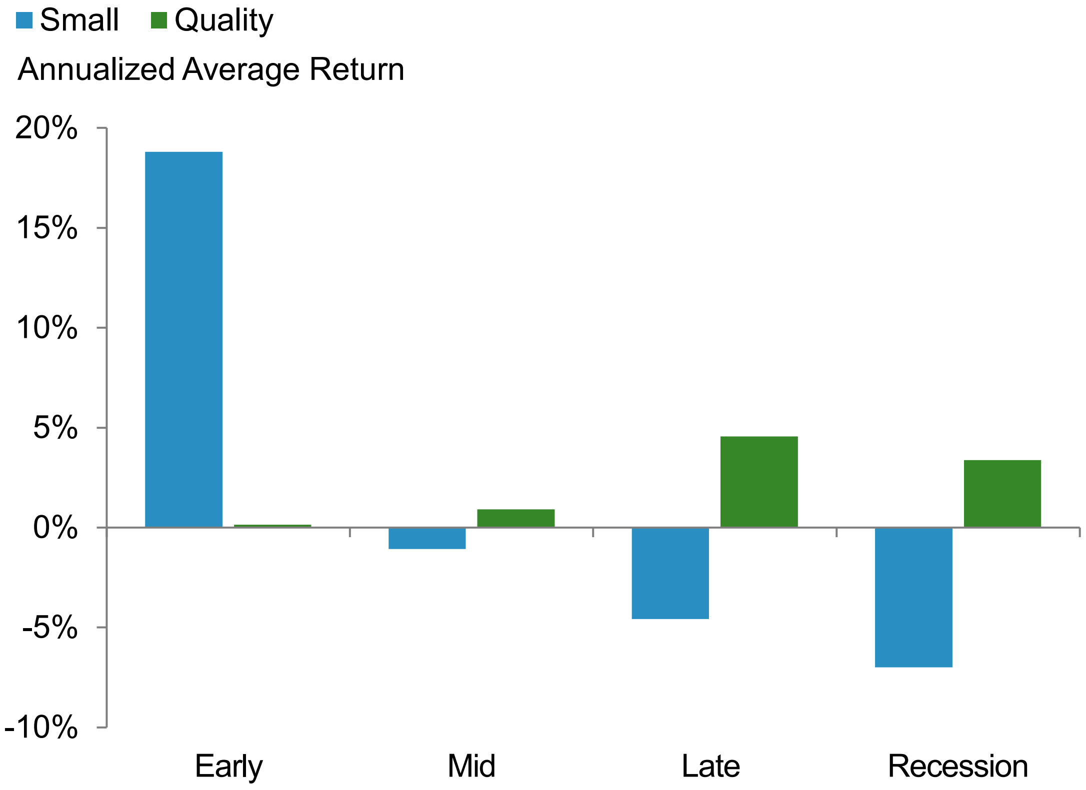



FX: Foreign currency exchange rate, PMI: Purchasing Managers Index of manufacturing activity. LEFT: Source: Bloomberg Finance L.P., Macrobond, and Fidelity Investments, as of 12/31/23. RIGHT: USD returns calculated as rolling quarter-over-quarter returns based on US Broad Trade Weighted Index. Global PMI measured by market cap weighting. Relative Growth measured as 3-month moving average. Sources: Bloomberg, Fidelity Investments, Macrobond, S&P Global, and Federal Reserve, as of 12/31/23.

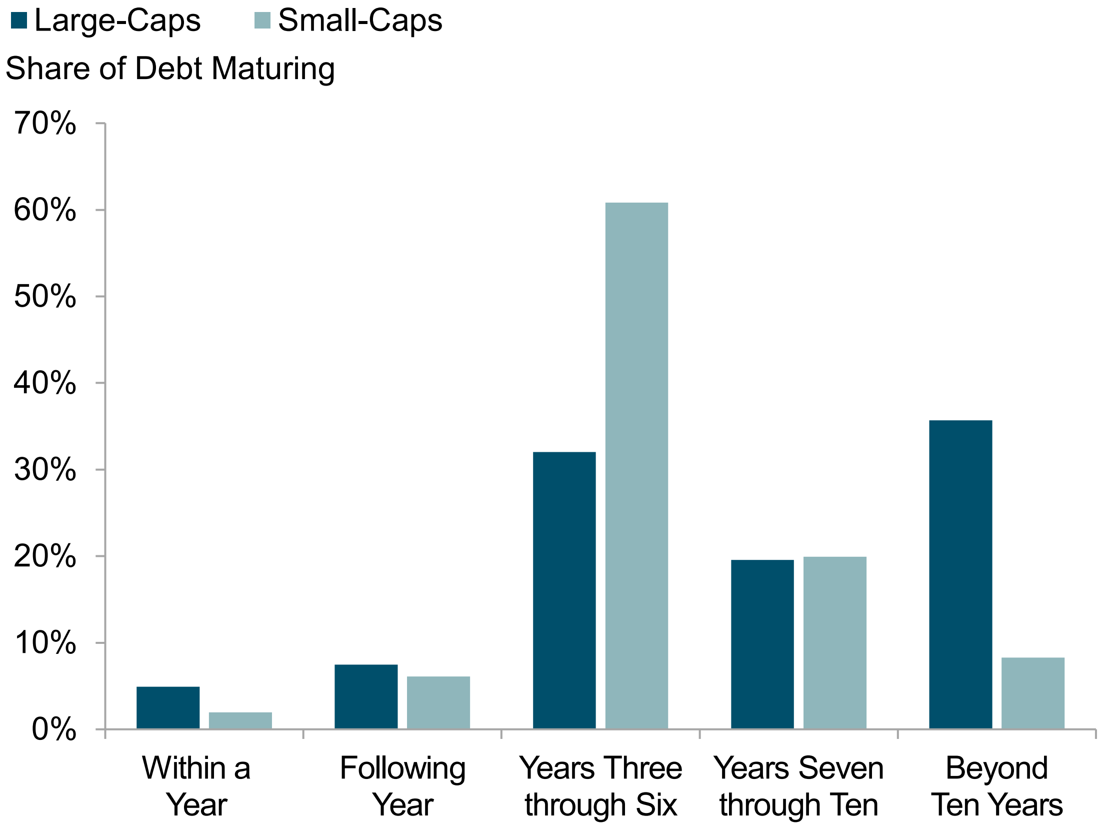
# Cyclical and medium-term backdrop supports quality factor

**Historically, companies with higher quality earnings and larger market caps tend to outperform in a maturing cycle (late and recession) with smaller companies tending to do better during the early-cycle phase. Over the medium term, a higher cost of capital backdrop favors companies with higher quality earnings and balance sheets, and larger companies that tend to have lower near-term debt re-financing needs compared to smaller ones.**

### Factor Returns vs. Market through Cycle (1986–2020)




### Large and Small Cap Stocks Debt by Maturity




For illustrative purposes only. Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss. It is not possible to invest directly in an index. See Appendix for important index information. LEFT: Small represents the U.S. size equity factor. Market—MSCI USA Index; Min Vol—MSCI USA Minimum Volatility Index, Value–MSCI USA Value Index. Source: Bloomberg Finance L.P., Fidelity Investments (AART), analysis as of 12/31/23. RIGHT: Excludes financial and real estate stocks. Source: Empirical Research Partners Analysis, Fidelity Investments (AART) as of 8/31/23.

# Business cycle approach to equity sectors

**A disciplined business cycle approach to sector allocation seeks to generate active returns by favoring industries that may benefit from cyclical trends. Economically sensitive sectors historically have performed better in the early- and mid-cycle phases of an economic expansion. Meanwhile, companies in defensive sectors with relatively more stable earnings growth have tended to outperform in weaker environments.**

## Business Cycle Approach to Sectors

| Sector | **EARLY CYCLE**—Rebounds | **MID CYCLE**—Peaks | **LATE CYCLE**—Moderates | **RECESSION**—Contracts |
|---|---|---|---|---|
| Financials | + | | | - |
| Real Estate | ++ | - | + | -- |
| Consumer Discretionary | ++ | | -- | |
| Information Technology | + | + | - | -- |
| Industrials | ++ | | | -- |
| Materials | + | -- | | - |
| Consumer Staples | -- | - | + | ++ |
| Health Care | -- | | | ++ |
| Energy | -- | | ++ | -- |
| Communication Services | | + | | - |
| Utilities | -- | - | + | ++ |
| | Economically sensitive sectors have tended to outperform, while more defensive sectors have tended to underperform. | Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle. | Defensive and inflation-resistant sectors have tended to perform better, while more cyclical sectors underperform. | Since performance generally has been negative during recessions, investors should focus on the most defensive, historically stable sectors. |

Past performance is no guarantee of future results. Sectors as defined by GICS. White line is a theoretical representation of the business cycle as it moves through early, mid, late, and recession phases. Green- and red-shaded portions above represent over- or underperformance, respectively, relative to the broader market; unshaded (white) portions suggest no clear pattern of over- or underperformance. Double +/– signs indicate that the sector is showing a consistent signal across all three metrics: full-phase average performance, median monthly difference, and cycle hit rate. A single +/– indicates a mixed or less consistent signal. Return data from 1962 to 2021. Source: Fidelity Investments (AART), as of 12/31/23.

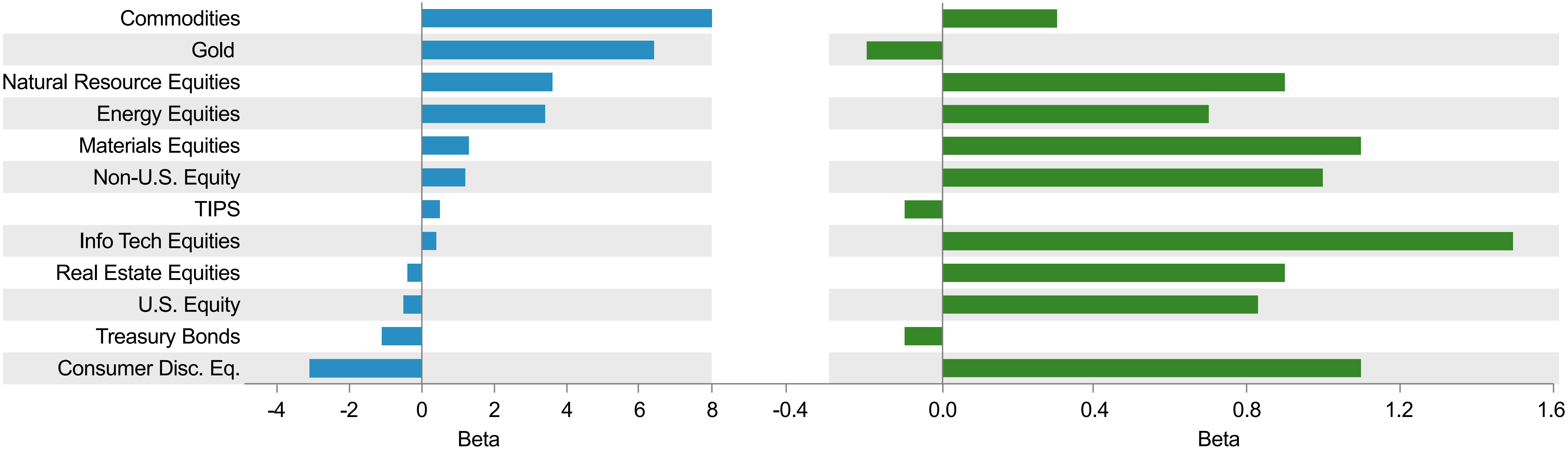
# Inflation-sensitive assets can help provide diversification

**The potential for a sustained period of higher inflation presents risks for a multi-asset portfolio. Inflation-resistant assets, including commodities and commodity-producer equities, can help hedge against surprise increases in inflation while providing potential for capital appreciation in a high nominal-growth environment. Inflation-hedging fixed income assets, such as TIPS,* have provided better diversification than Treasuries.**



**Return Sensitivity to Inflation Surprises (1972–2022)**

**Return Sensitivity to Growth Surprises (1972–2022)**

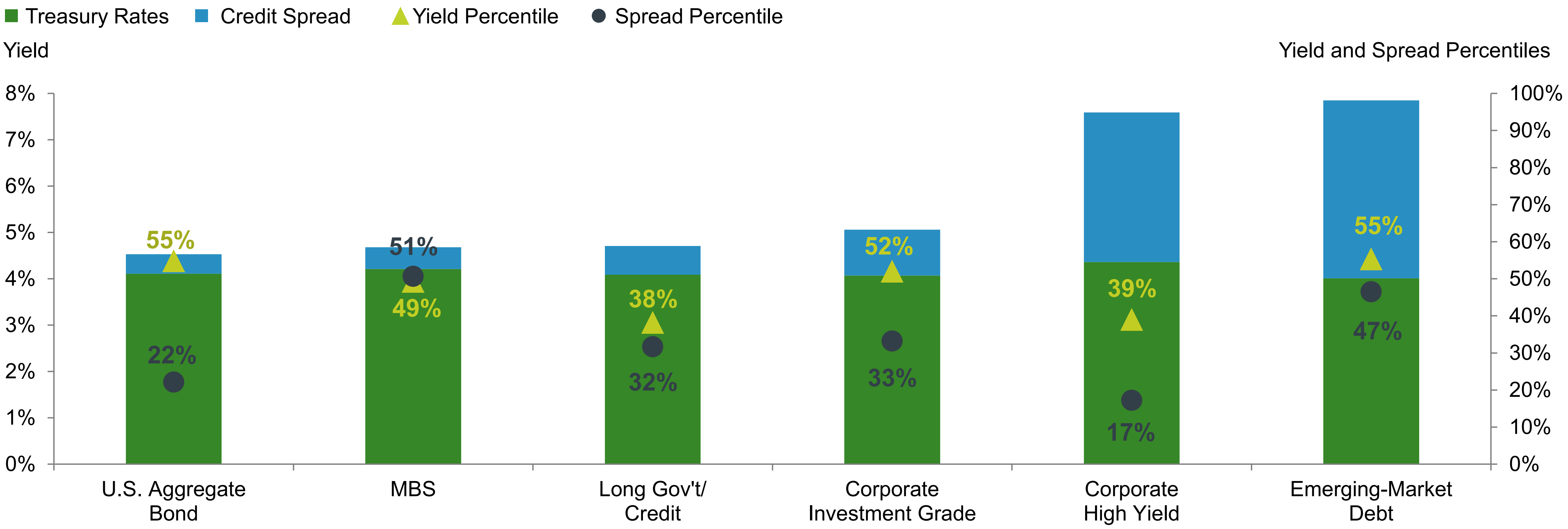



Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against loss. * TIPS are Treasury Inflation-Protected Securities. Inflation sensitivity measured relative to CPI, an index that tracks the percentage change in the price of a specified "basket" of consumer goods and services. Growth sensitivity measured relative to the Purchasing Manager's Index (PMI) that shows the prevailing trends in the manufacturing and service sectors. Beta is a measure of a variable's sensitivity (response) relative to changes (volatility) in a reference (benchmark), which has a beta of 1. Indexes: U.S. Equity—Dow Jones U.S. Total Stock Market IndexSM; Non-U.S. Equity (EM+DM)—MSCI ACWI ex USA Index; Commodities—Bloomberg Commodity Index Total ReturnSM. Commodity sectors represent categories within the Bloomberg Commodity Index Total ReturnSM. Equity sectors represent categories within MSCI as defined by the Global Industry Classification Standard (GICS®). See Appendix for index definitions and other important information. Source: Bureau of Labor Statistics, Fidelity Investments; data 1/1/72 through 2/28/22.

# Fixed income yields drop, still attractive vs. prior decade

Treasury rates fell sharply during Q4, with most fixed income categories ending the quarter with yields around their long-term historical averages. The rally in risk assets spurred tighter credit spreads, which fell to the lower end of their historical range in most bond categories. Overall, fixed-income yields suggest valuations that are roughly in-line with long-term averages and better than the past decade of low yields.

**Fixed Income Yields and Spreads (1993–2023)**




U.S. Aggregate Bond—Bloomberg U.S. Aggregate Bond Index; MBS—Bloomberg MBS Index; Long Gov't/Credit Bonds—Bloomberg Long Government & Credit Index; Corporate Investment Grade—Bloomberg U.S. Corporate Bond Index; High-Yield Bonds—ICE BofA High Yield Bond Index; Emerging-Market Bonds—JP Morgan EMBI Global Diversified Composite Index. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Percentile ranks of yields and spreads based on historical period from 1993 to 2023. Treasury rates different across asset classes due to different duration for each index. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/23.

# Long-term themes

# Secular trends present new challenges for asset markets

**We believe shifting long-term trends in economic and policy conditions imply a secular regime change for financial markets. Record-high debt and widespread aging demographics create challenges for fiscal and monetary policy, while more unstable geopolitics and peaking global integration represent a different direction from recent decades. Inflation, policy, and profit risks warrant higher levels of strategic diversification.**

| Broad Secular Trends | Secular Factors | Impact |
|---|---|---|
| Unprecedented Debt Levels | Monetary policy | More uncertain with bigger swings between financial repression and fighting inflation |
| Widespread Aging Demographics | Fiscal policy | Higher structural deficits |
| Peak Globalization | Labor force | Supply constrained |
| Geopolitical Instability | Supply-chain self sufficiency, reliability | Less goods and labor disinflation |
| | National security-oriented policies | Business backdrop less market-driven |

RESULTS

- Inflation and interest rates more volatile
- Policy and political risks higher
- Financial fragility
- Profit-margin pressures
- Higher asset price volatility
- Lower global asset correlations

Shows Need for
**Strategic Diversification:**
More nuanced diversification and less reliance on simple extrapolation of past trends

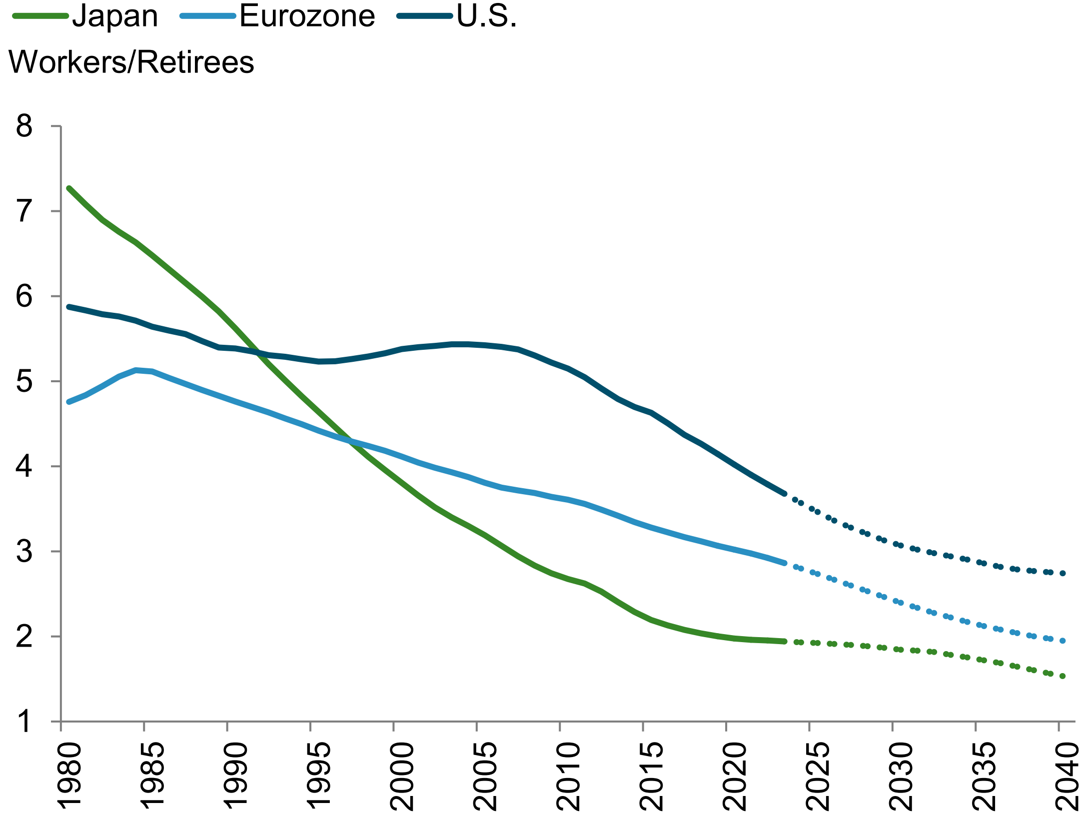

Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss.

# Unprecedented debt levels amid aging demographics

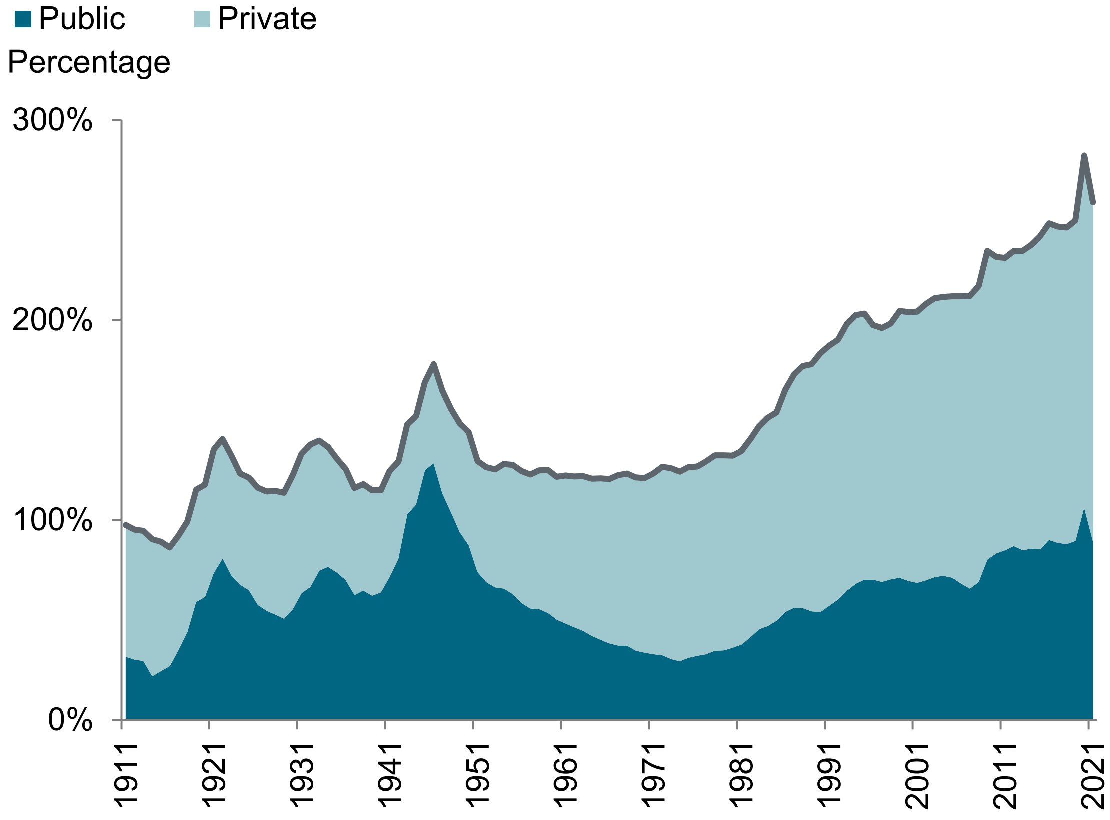
LONG-TERM

**Most major economies face deteriorating demographic trends. With fewer new workers to support a growing number of retirees, greater fiscal pressures are ahead due to rising spending on pensions and health care. The dramatic worldwide rise in public and private debt in recent decades has been sustained by extraordinary monetary accommodation, leaving the outlook more uncertain amid higher interest and inflation rates.**

### Demographic Support Ratio




### Global Debt as a Share of GDP




LEFT: The demographic support ratio is calculated as the number of workers (15–64 years old)/number of retirees (65 and older). Dotted line represents a projection. Source: United Nations, Haver Analytics, Fidelity Investments (AART), as of 7/31/22. RIGHT: Source: Bank of International Settlements, International Monetary Fund, Maddison Project, Fidelity Investments (AART), and the Jordà-Schularick-Taylor Macrohistory Database, compiled by Oscar Jordà, Moritz Schularick, and Alan M. Taylor, as of 12/31/21.

# Geopolitical risk: More great powers, less stability

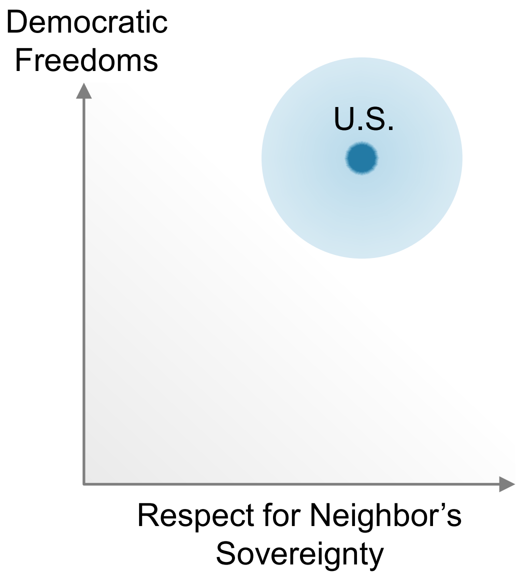
**The Ukraine war is a stark reminder that we've shifted to a secular environment of higher geopolitical risk. The distribution of power among the world's great powers determines the structure of the world order, and in recent decades, we enjoyed a stable, unipolar backdrop under U.S. global dominance. Today, power has become more evenly distributed among a number of countries, leaving the backdrop inherently more unstable.**

LONG-TERM

## UNIPOLAR

**Very Stable**

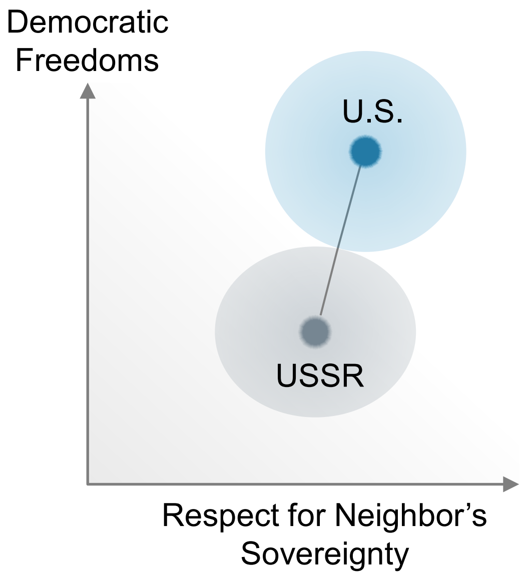
**1990s–Early 21st Century**




## BIPOLAR

**Pretty Stable**

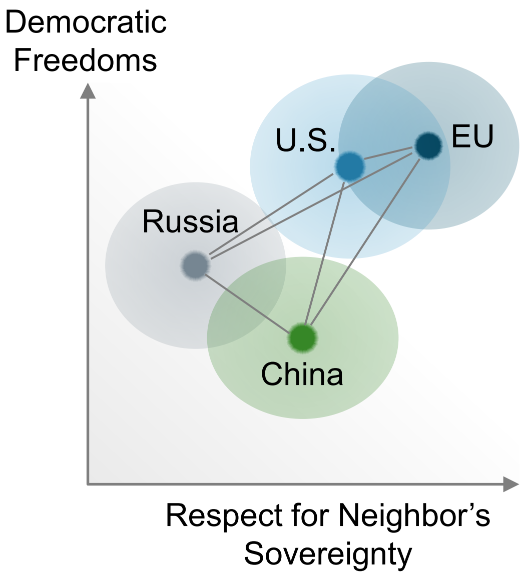
**1960s–1980s**




## MULTIPOLAR

**Unstable**

**Today**

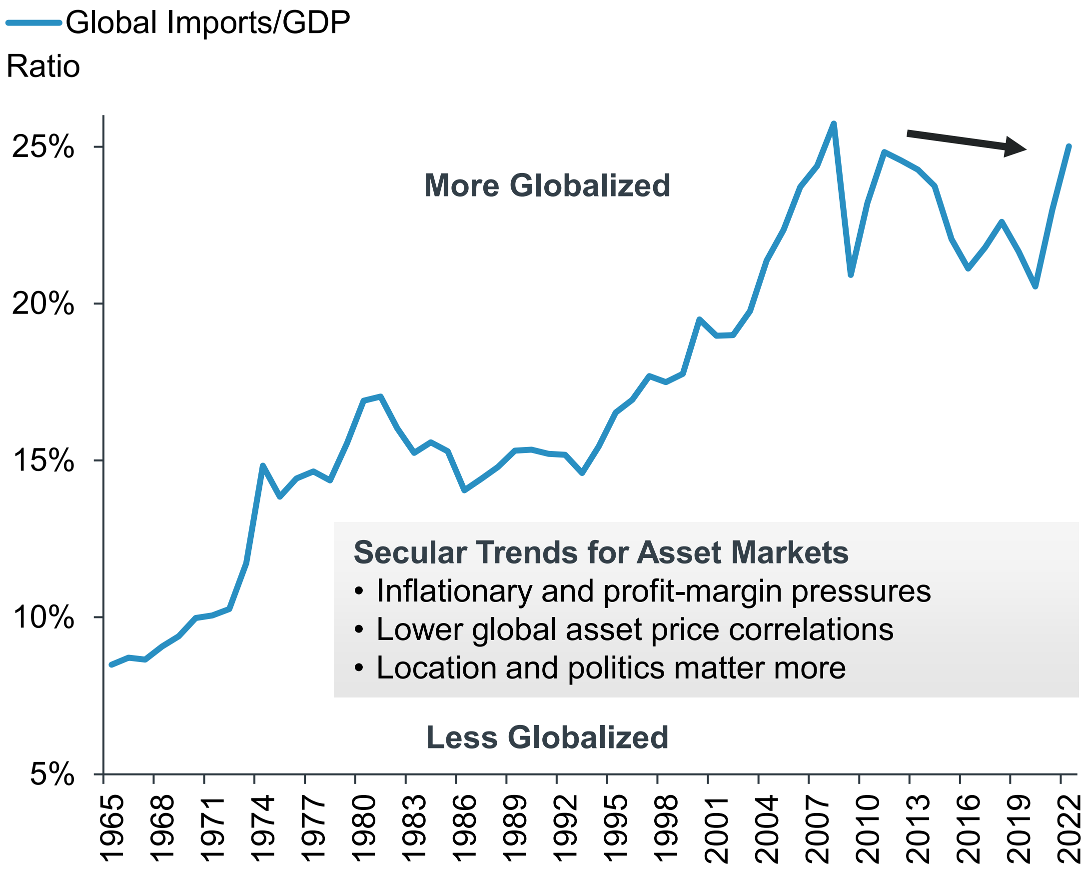



Source: Fidelity Investments (AART), as of 9/30/23.

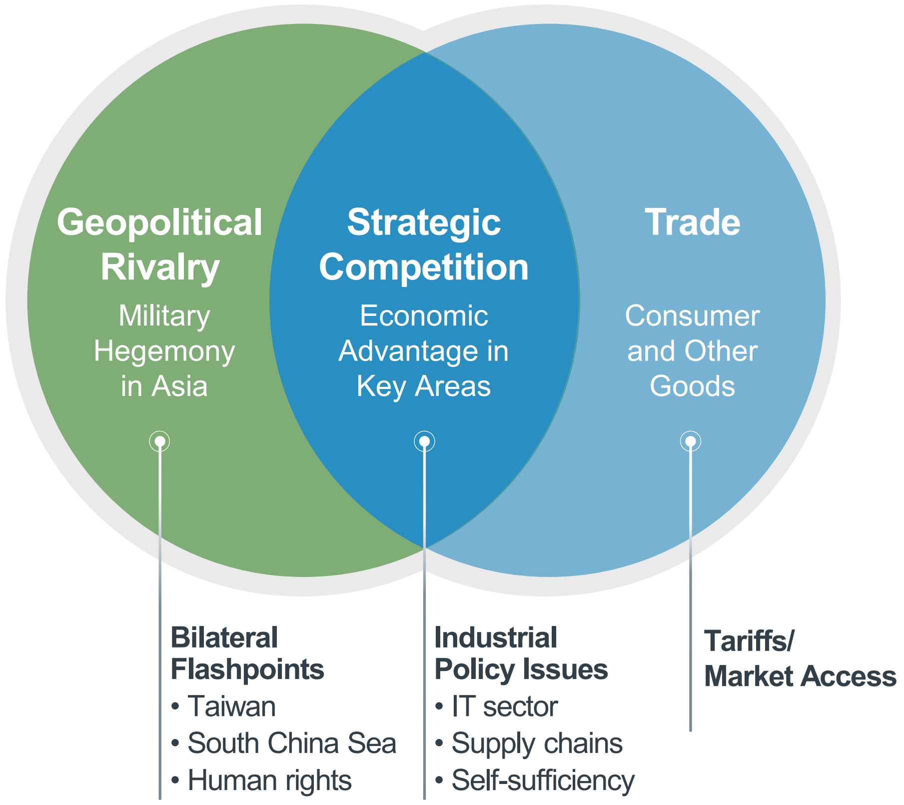
# U.S.-China friction at heart of managed globalization trend

**After decades of rapid global integration, economic openness has stalled in recent years. The deepening U.S.–China rivalry creates friction at the center of the globalized trading system, and it implies continued political risk for commercial activities, such as the bipolarization of the tech industry. The more domestic politics and location matter, the greater the potential benefits and active opportunities from global asset diversification.**

## Trade Globalization




## U.S.–China Relationship




Diversification does not ensure a profit or guarantee against a loss. The arrow on the left chart notes the general downtrend in global imports as a percentage of gross domestic product since roughly the end of the 2007–2009 Global Financial Crisis. Source: World Bank, International Monetary Fund (IMF), Macrobond, Fidelity Investments (AART) as of 12/31/2022.

# Secular inflation risks confront monetary policymakers

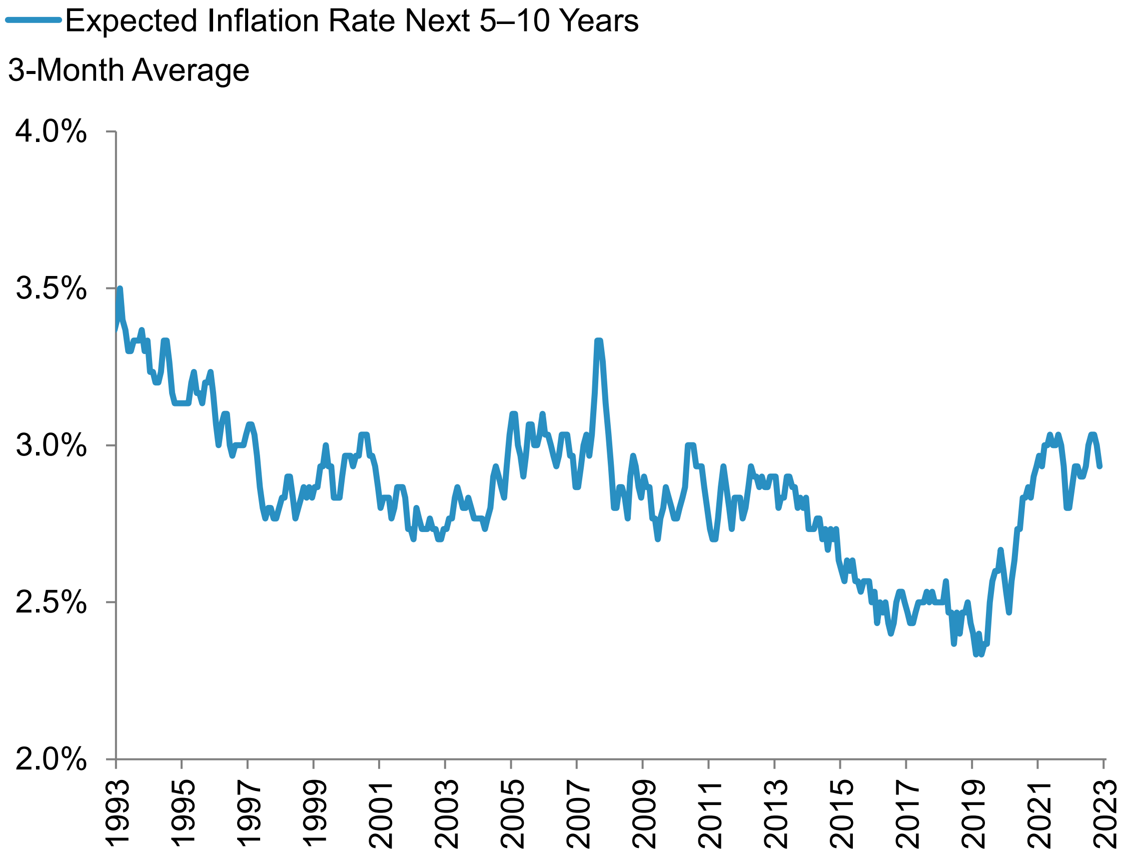


**Several long-term trends have become more inflationary in recent years, raising the odds that we've entered a medium-term, high-inflation regime. These factors include supply-side pressures from deglobalization and aging demographics, accommodative fiscal policies, and decelerating long-term productivity rates. U.S. consumers' long-term inflation expectations are at decade highs.**

### Possible Secular Impact on Inflation

| Secular Factors | Long-Term Trends | Risks to Inflation |
|---|---|---|
| **Policy** | Fed tolerates higher inflation | ↑ |
| | More-accommodative fiscal policy | ↑ |
| **Peak Globalization** | More-expensive goods & labor | ↑ |
| | Geopolitical friction | ↑ |
| **Aging Demographics** | Older adults: | |
| | • Spend less (reducing demand) | ↓ |
| | • Work less (reducing supply) | ↑ |
| **Technological Progress** | Artificial intelligence, robots | ↓ |
| | Declining long-term productivity | ↑ |
| **Climate Change** | More-volatile weather, supply damage | ↑ |
| | Greater innovation/R&D in clean energy | ↓ |

### Consumer Long-Term Inflation Expectations




LEFT: Diversification does not ensure a profit or guarantee against a loss. Source: Fidelity Investments (AART), as of 12/31/22. RIGHT: University of Michigan Survey of Consumers. Source: University of Michigan, Haver Analytics, Fidelity Investments (AART), as of 11/30/23.

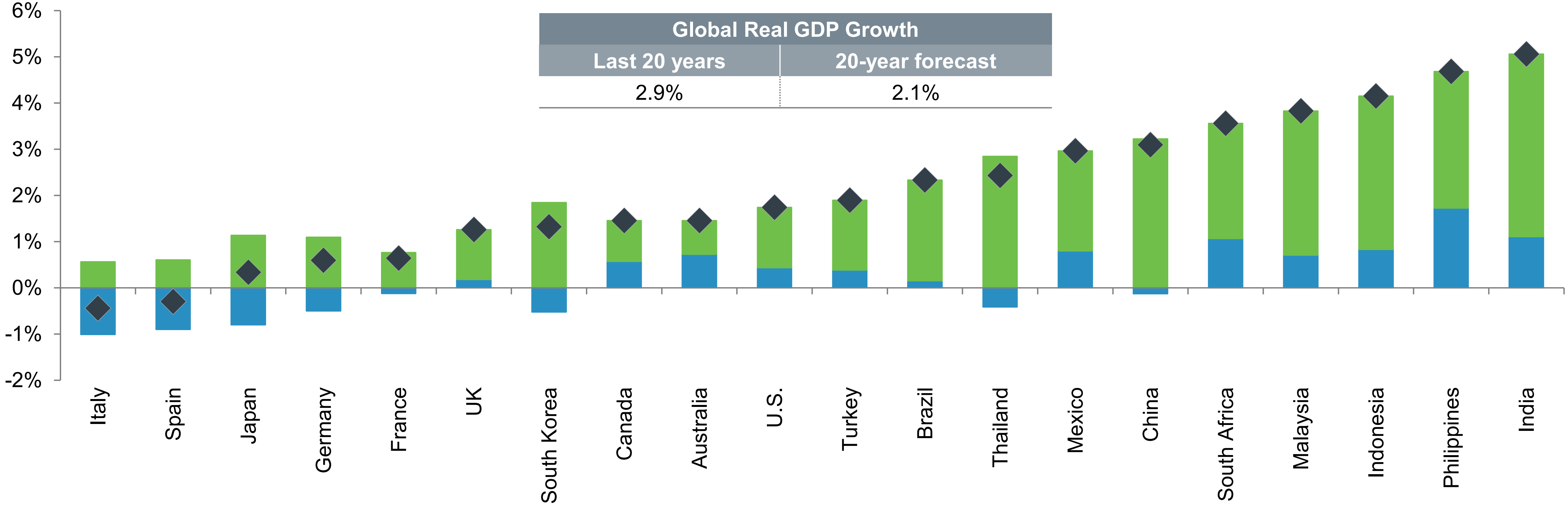
# Secular forecast: Slower global growth, EM to lead

**Slowing labor-force growth and aging demographics are expected to tamp down global economic growth over the next two decades (relative to the past 20 years). We expect GDP growth in emerging markets to outpace that of developed markets over the long term, providing a relatively favorable secular backdrop for emerging-market equity returns.**

**Real GDP 20-Year Growth Forecasts**

Productivity Growth   Labor Force Growth   Total Growth

Annualized Rate




| Global Real GDP Growth | |
|---|---|
| **Last 20 years** | **20-year forecast** |
| 2.9% | 2.1% |

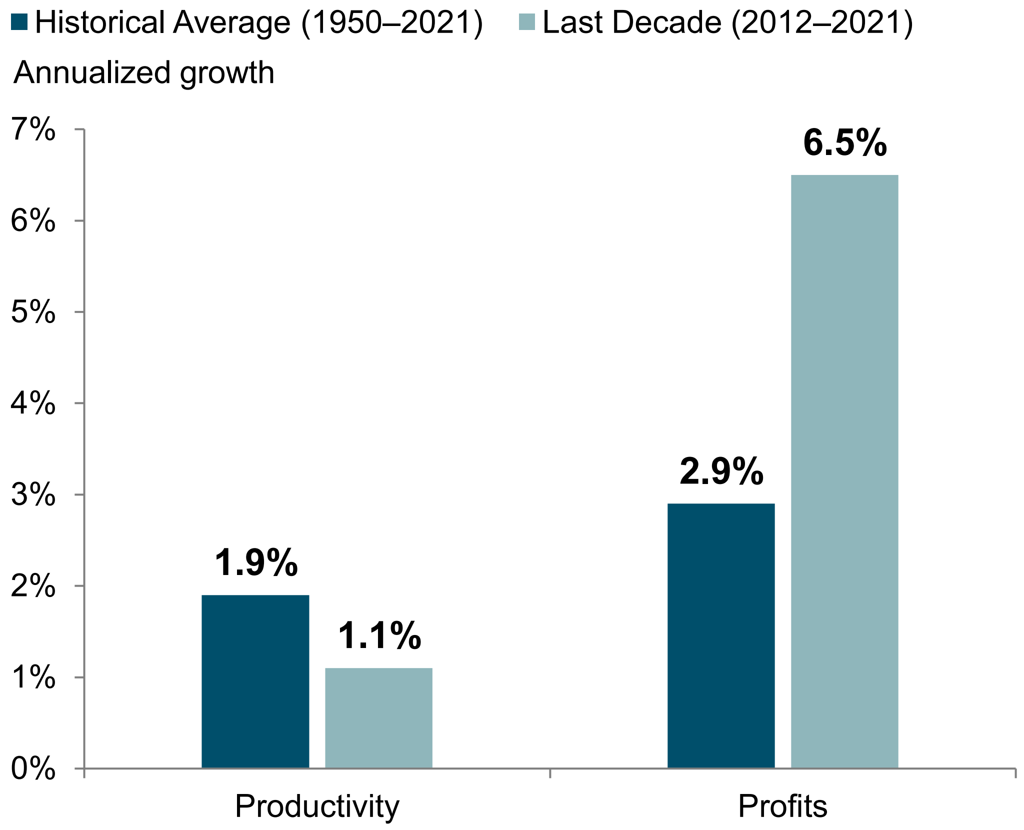
Past performance is no guarantee of future results. EM: Emerging markets. GDP: Gross domestic product.
Source: OECD and Fidelity Investments (AART), as of 5/31/23.

# Change in corporate behavior on the horizon?

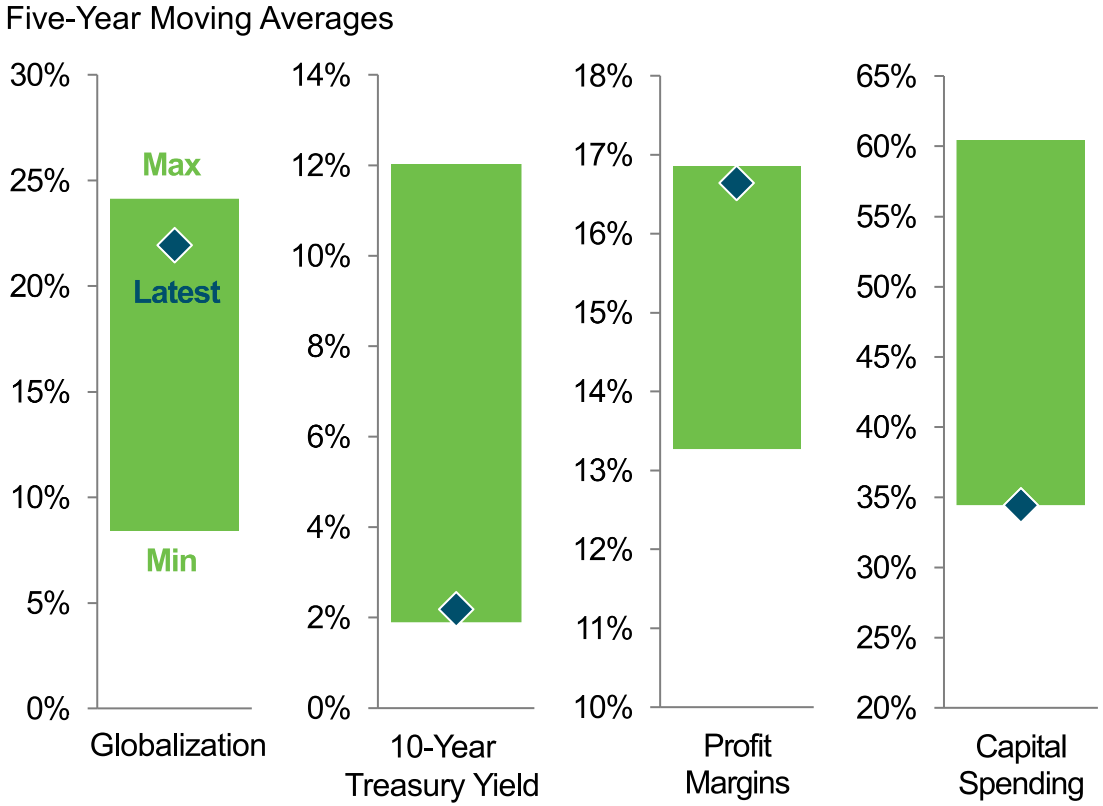


**Over the past two decades, corporations were able to generate record-high profit growth despite productivity growth sinking to post-war lows. Businesses reduced costs by globalizing supply chains and taking advantage of record-low interest rates. With rates now higher and globalization past its peak, corporations may raise their capital expenditures from record-low levels, which could boost the productivity outlook.**

### Real Productivity Growth vs. Real Profit Growth




### Range of Corporate Indicators, 1962–2022




LEFT: Productivity is real GDP per hour. Profits are real S&P 500 earnings per share. Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Standard and Poor's, Haver Analytics, Fidelity Investments (AART), as of 12/31/21. RIGHT: Globalization measured as global imports/GDP. Profit margins measured as EBITDA/Sales. Capital spending is relative to EBITDA and excludes financials and real estate. Exhibit compiled using annual data. Source: IMF, World Bank, Federal Reserve Board, Fidelity Investments (AART), as of 12/31/22.

# Strategic opportunities amid productivity upside scenarios



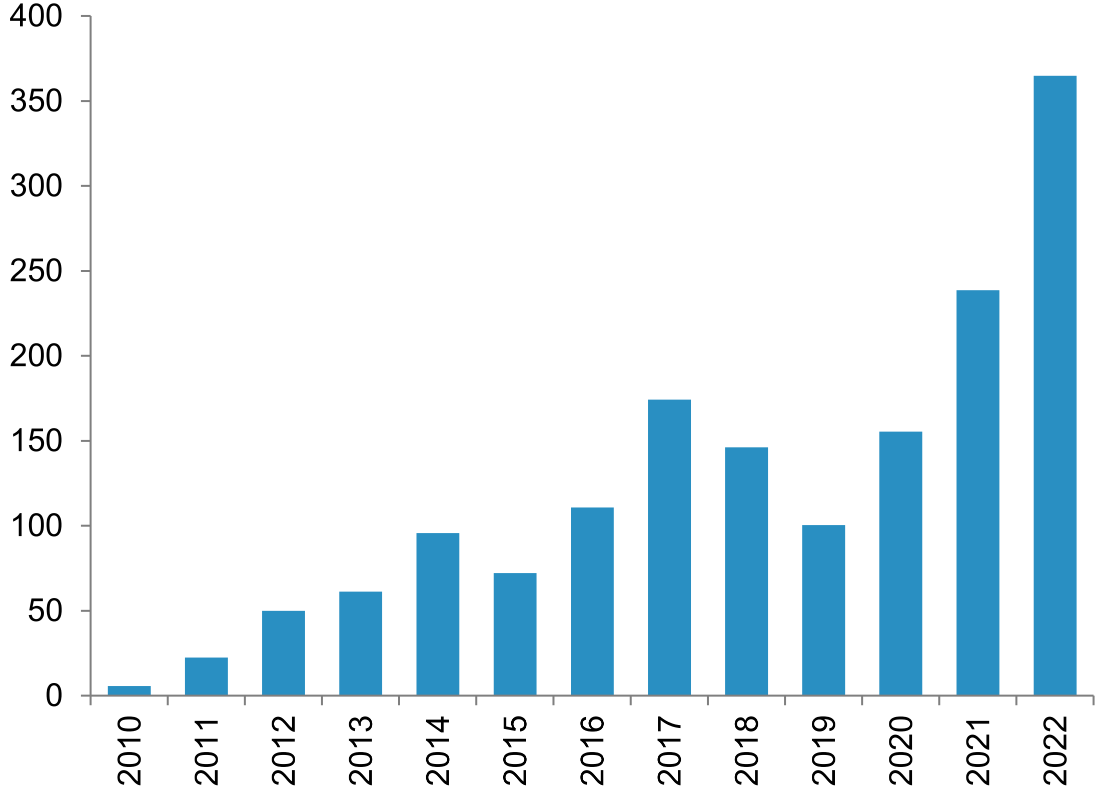
**With long-term productivity rates slumping at multi-decade lows, a number of potential catalysts could boost productivity over the next decade. For instance, private and public investments to reshore manufacturing activities, mitigate the impact of climate change, and expand the use of AI have picked up steam. Secular changes may provide greater global active opportunities across regions, countries, industries, and companies.**

### Examples of Strategic Opportunities

| Global opportunities | Capex, innovation, and shifting market leadership opportunities |
|---|---|
| Lower asset correlations increase the benefits of geographic diversification | **Environmental** Climate mitigation and adaptation, decarbonization |
| Greater active opportunities across regions, countries, industries, and companies | **Reshoring and near-shoring** Regionalization, supply-chain resilience |
| | **National security** Energy, critical resources, defense, cyber |
| Non-aligned countries as key beneficiaries | **Artificial intelligence** Sector-specific automation, wider adoption |

### U.S. Jobs Created from Reshoring and FDI

Thousands




FDI is Foreign Direct Investment. Diversification and asset allocation do not ensure a profit or guarantee against loss. LEFT: Source: Fidelity Investments (AART) as of 6/30/23. RIGHT: Based on reshoring announcements by U.S. headquartered companies and FDI by foreign companies that are shifting production or sourcing from offshore to the U.S. Source: Reshoring Initiative, Fidelity Investments (AART), as of 12/31/22.

# Performance rotations underscore need for diversification

**The performance of different assets has fluctuated widely from year to year, and the magnitude of returns can vary significantly among asset classes in any given year—even among asset classes that are moving in the same direction. A portfolio allocation with a variety of global assets illustrates the potential benefits of diversification.**

## Periodic Table of Returns

| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Legend |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 32% | 35% | 35% | 40% | 5% | 79% | 28% | 8% | 20% | 39% | 28% | 5% | 21% | 38% | 0% | 36% | 38% | 43% | 16% | 41% | Growth Stocks |
| 26% | 21% | 33% | 16% | -20% | 58% | 27% | 8% | 19% | 34% | 14% | 3% | 18% | 30% | -2% | 31% | 20% | 29% | -8% | 26% | Large Cap Stocks |
| 21% | 14% | 27% | 12% | -26% | 37% | 19% | 4% | 18% | 33% | 13% | 1% | 18% | 26% | -2% | 26% | 18% | 27% | -11% | 18% | Foreign-Developed Country Stocks |
| 18% | 12% | 22% | 11% | -34% | 32% | 18% | 4% | 18% | 32% | 12% | 1% | 12% | 22% | -3% | 26% | 18% | 26% | -13% | 18% | 60% Large Cap 40% IG Bonds |
| 17% | 7% | 18% | 7% | -36% | 28% | 17% | 2% | 16% | 23% | 11% | 1% | 12% | 15% | -4% | 26% | 14% | 25% | -14% | 17% | Small Cap Stocks |
| 11% | 5% | 16% | 6% | -36% | 27% | 16% | 2% | 16% | 19% | 6% | 0% | 11% | 15% | -4% | 22% | 8% | 17% | -16% | 14% | REITs |
| 11% | 5% | 12% | 5% | -37% | 26% | 15% | 0% | 16% | 7% | 5% | -4% | 9% | 13% | -9% | 22% | 8% | 15% | -18% | 13% | High-Yield Bonds |
| 9% | 5% | 11% | 2% | -38% | 20% | 15% | -4% | 15% | 3% | 3% | -4% | 8% | 9% | -11% | 18% | 6% | 11% | -20% | 12% | Value Stocks |
| 8% | 4% | 9% | -1% | -38% | 19% | 12% | -12% | 11% | -2% | -2% | -5% | 7% | 8% | -11% | 14% | 3% | 5% | -20% | 10% | Emerging-Market Stocks |
| 7% | 3% | 4% | -2% | -43% | 18% | 8% | -13% | 4% | -2% | -4% | -15% | 3% | 4% | -11% | 9% | -3% | -2% | -24% | 6% | Investment-Grade Bonds |
| 4% | 2% | 2% | -16% | -53% | 6% | 7% | -18% | -1% | -10% | -17% | -25% | 2% | 1% | -14% | 8% | -8% | -3% | -29% | -8% | Commodities |

Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Asset classes represented by: Commodities—Bloomberg Commodity Index; Emerging-Market Stocks—MSCI Emerging Markets Index; Non-U.S. Developed-Country Stocks—MSCI EAFE Index; Growth Stocks—Russell 3000 Growth Index; High-Yield Bonds—ICE BofA U.S. High Yield Index; Investment-Grade Bonds—Bloomberg U.S. Aggregate Bond Index; Large Cap Stocks— S&P 500 index; Real Estate/REITs—FTSE NAREIT All Equity Total Return Index; Small Cap Stocks—Russell 2000 Index; Value Stocks—Russell 3000 Value Index. Source: Morningstar, Standard & Poor's, Fidelity Investments (AART), as of 12/31/23.

# Appendix: Important information

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or a solicitation to buy or sell any securities. Views expressed are as 12/31/23, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

**Information provided in, and presentation of, this document are for informational and educational purposes only and are not a recommendation to take any particular action, or any action at all, nor an offer or solicitation to buy or sell any securities or services presented. It is not investment advice. Fidelity does not provide legal or tax advice.**

Before making any investment decisions, you should consult with your own professional advisers and take into account all of the particular facts and circumstances of your individual situation. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in these materials because they have a financial interest in them, and receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Nothing in this content should be considered legal or tax advice, and you are encouraged to consult your own lawyer, accountant, or other advisor before making any financial decision. These materials are provided for informational purposes only and should not be used or construed as a recommendation of any security, sector, or investment strategy.

**Past performance and dividend rates are historical and do not guarantee future results.**

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against a loss.

Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Indexes are unmanaged. It is not possible to invest directly in an index.

Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rates rise, bond prices usually fall, and vice versa) and the risk of default, or the risk that an issuer will be unable to make income or principal payments.

Additionally, bonds and short-term investments entail greater inflation risk—or the risk that the return of an investment will not keep up with increases in the prices of goods and services—than stocks. Increases in real interest rates can cause the price of inflation-protected debt securities to decrease.

Stock markets, especially non-U.S. markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. The securities of smaller, less well-known companies can be more volatile than those of larger companies.

There is no guarantee that a factor-based investing strategy will enhance performance or reduce risk. Before investing, make sure you understand how a factor investment strategy may differ from a more traditional index-based or actively managed approach. Depending on market conditions, factor-based investments may underperform compared to investments that seek to track a market-capitalization-weighted index or investments that employ full active management.

Growth stocks can perform differently from the market as a whole and from other types of stocks and can be more volatile than other types of stocks. Value stocks can perform differently from other types of stocks and can continue to be undervalued by the market for long periods of time.

Lower-quality debt securities generally offer higher yields but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Any fixed income security sold or redeemed prior to maturity may be subject to loss.

Floating rate loans generally are subject to restrictions on resale, and sometimes trade infrequently in the secondary market; as a result, they may be more difficult to value, buy, or sell. A floating rate loan may not be fully collateralized and therefore may decline significantly in value.

The municipal market can be affected by adverse tax, legislative, or political changes, and by the financial condition of the issuers of municipal securities. Interest income generated by municipal bonds is generally expected to be exempt from federal income taxes and, if the bonds are held by an investor resident in the state of issuance, from state and local income taxes. Such interest income may be subject to federal and/or state alternative minimum taxes. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all tax brackets. Generally, tax-exempt municipal securities are not appropriate holdings for tax-advantaged accounts, such as IRAs and 401(k)s.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

The gold industry can be significantly affected by international monetary and political developments, such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries.

Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

Leverage can magnify the impact that adverse issuer, political, regulatory, market, or economic developments have on a company. In the event of bankruptcy, a company's creditors take precedence over the company's stockholders.

# Appendix: Important information

**Market Indexes**

**Index returns on slide 27 represented by:** Growth—Russell 3000® Growth Index; Small Cap—Russell 2000® Index; Large Cap—S&P 500®; Mid Cap—Russell Midcap® Index; Value—Russell 3000® Value Index; ACWI ex USA—MSCI ACWI (All Country World Index) ex USA Index; Japan—MSCI Japan Index; EAFE Small Cap—MSCI EAFE Small Cap Index; EAFE—MSCI EAFE (Europe, Australasia, Far East) Index; Europe—MSCI Europe Index; Canada—MSCI Canada Index; EM Asia—MSCI Emerging Markets Asia Index; Emerging Markets (EM)—MSCI EM Index; EMEA (Europe, Middle East, and Africa)—MSCI EM EMEA Index; Latin America—MSCI EM Latin America Index; Gold—Gold Bullion Price, LBMA PM Fix; Commodities—Bloomberg Commodity Index; High Yield—ICE BofA U.S. High Yield Index; Leveraged Loan—S&P/LSTA Leveraged Loan Index; TIPS (Treasury Inflation-Protected Securities)—Bloomberg U.S. TIPS Index; EM Debt (Emerging-Market Debt)—JP Morgan EMBI Global Diversified Composite Index; CMBS (Commercial Mortgage-Backed Securities)—Bloomberg Investment-Grade CMBS Index; Credit—Bloomberg U.S. Credit Bond Index; Municipal—Bloomberg Municipal Bond Index; Long Government & Credit (Investment-Grade)—Bloomberg Long Government & Credit Index; ABS (Asset-Backed Securities)—Bloomberg ABS Index; Aggregate—Bloomberg U.S. Aggregate Bond Index; Agency—Bloomberg U.S. Agency Index; Treasuries—Bloomberg U.S. Treasury Index; MBS (Mortgage-Backed Securities)—Bloomberg MBS Index; Momentum—Fidelity U.S. Momentum Factor Index TR; Low Volatility—Fidelity U.S. Low Volatility Factor Index; Quality—Fidelity U.S. Quality Factor Index; Value—Fidelity U.S. Value Factor Index; Size—Fidelity Small-Mid Factor Index; Yield—Fidelity High Dividend Index.

**Bloomberg U.S. Aggregate Bond** is a broad-based, market value-weighted benchmark that measures the performance of the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg U.S. Credit Bond Index** is a market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

**Bloomberg U.S. Treasury Index** is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more. **Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index (Series-L)** is a market value-weighted index that measures the performance of inflation-protected securities issued by the US Treasury. **Bloomberg Long U.S. Government Credit Index** includes all publicly issued U.S. government and corporate securities that have $250 million or more of outstanding face value. **Bloomberg U.S. Agency Bond Index** is a market value-weighted index of U.S. Agency government and investment-grade corporate fixed-rate debt issues. **Bloomberg Municipal Bond Index** is a market value-weighted index of investment-grade municipal bonds with maturities of one year or more.

**Bloomberg U.S. MBS Index** is a market value-weighted index of fixed-rate securities that represent interests in pools of mortgage loans, including balloon mortgages, with original terms of 15 and 30 years that are issued by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corp. (FHLMC).

**Bloomberg CMBS Index** is designed to mirror commercial mortgage-backed securities of investment-grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P, and Fitch, respectively, with maturities of at least one year. **Bloomberg ABS Index** is a market value-weighted index that covers fixed-rate asset-backed securities with average lives greater than or equal to one year and that are part of a public deal; the index covers the following collateral types: credit cards, autos, home equity loans, stranded-cost utility (rate-reduction bonds), and manufactured housing.

**ICE BofA U.S. High Yield Index** is a market capitalization-weighted index of U.S. dollar- denominated, below-investment-grade corporate debt publicly issued in the U.S. market.

**JPM® EMBI Global Diversified Composite Index** comprises of USD denominated Brady bonds, Eurobonds and Traded loans issued by sovereign and quasi sovereign entities. The Diversified version limits the weights of the index countries by only including a specified portion of those countries' eligible current face amounts of debt outstanding. This provides a more even distribution of weights within the countries in the index.

**Standard & Poor's/Loan Syndications and Trading Association (S&P/LSTA) Leveraged Performing Loan Index** is a market value-weighted index designed to represent the performance of U.S. dollar-denominated institutional leveraged performing loan portfolios (excluding loans in payment default) using current market weightings, spreads, and interest payments.

**Bloomberg Commodity Index** measures the performance of the commodities market. It consists of exchange traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

**Russell 3000® Index** is a market capitalization-weighted index designed to measure the performance of the 3,000 largest companies in the U.S. equity market. **Russell 3000 Growth Index** is a market capitalization-weighted index designed to measure the performance of the broad growth segment of the U.S. equity market. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth rates. **Russell 3000 Value Index** is a market capitalization-weighted index designed to measure the performance of the small to mid cap value segment of the U.S. equity market. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth rates. **Russell Midcap® Index** is a market capitalization-weighted index designed to measure the performance of the mid cap segment of the U.S. equity market. It contains approximately 800 of the smallest securities in the Russell 1000 Index.

**Russell 1000® Index** is a market capitalization-weighted index designed to measure the performance of the large cap segment of the U.S. equity market. **Russell 1000 Growth Index** is a market capitalization-weighted index designed to measure the performance of the large cap growth segment of the U.S. equity market. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth rates. **Russell 1000 Value Index** is a market capitalization-weighted index designed to measure the performance of the large cap value segment of the U.S. equity market. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth rates.

# Appendix: Important information

**Market Indexes** (continued)

**Russell 2000® Index** is a market capitalization-weighted index designed to measure the performance of the small cap segment of the U.S. equity market. It includes approximately 2,000 of the smallest securities in the Russell 3000 Index.

**S&P 500®** is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

**Sectors** and **Industries** are defined by Global Industry Classification Standards (GICS®), except where noted otherwise. **S&P 500 sectors**: Consumer Discretionary—companies that tend to be the most sensitive to economic cycles. Consumer Staples—companies whose businesses are less sensitive to economic cycles. Energy—companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, and other energy-related services and equipment; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. Financials—companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and mortgage real estate investment trusts (REITs). Health Care—companies in two main industry groups: health care equipment suppliers, manufacturers, and providers of health care services; and companies involved in research, development, production, and marketing of pharmaceuticals and biotechnology products. Industrials—companies that manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. Information Technology—companies in technology software and services and technology hardware and equipment. Materials—companies that engage in a wide range of commodity-related manufacturing. Real Estate—companies in real estate development, operations, and related services, as well as equity REITs. Communication Services—companies that facilitate communication and offer related content through various media. Utilities—companies considered electric, gas, or water utilities, or that operate as independent producers and/or distributors of power.

**Dow Jones U.S. Total Stock Market Index℠** is a full market capitalization-weighted index of all equity securities of U.S.-headquartered companies with readily available price data.

**MSCI All Country World Index (ACWI)** is a market capitalization-weighted index designed to measure investable equity market performance for global investors of developed and emerging markets. **MSCI ACWI (All Country World Index) ex USA Index** is a market capitalization-weighted index designed to measure investable equity market performance for global investors of large and mid cap stocks in developed and emerging markets, excluding the United States.

**MSCI Europe, Australasia, Far East Index (EAFE)** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. and Canada. **MSCI EAFE Small Cap Index** is a market capitalization-weighted index designed to measure the investable equity market performance of small cap stocks for global investors in developed markets, excluding the U.S. and Canada. **MSCI Europe Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of the developed markets in Europe. **MSCI Canada Index** is a market capitalization-weighted index designed to measure equity market performance in Canada. **MSCI Japan Index** is a market capitalization-weighted index designed to measure equity market performance in Japan.

**MSCI Emerging Markets (EM) Index** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in emerging markets. **MSCI EM Asia Index** is a market capitalization-weighted index designed to measure equity market performance of EM countries of Asia. **MSCI EM Europe, Middle East, and Africa (EMEA) Index** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in the EM countries of Europe, the Middle East, and Africa. **MSCI EM Latin America Index** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in Latin America.

**FTSE® National Association of Real Estate Investment Trusts (NAREIT®) All REITs Index** is a market capitalization-weighted index that is designed to measure the performance of all tax-qualified REITs listed on the NYSE, the American Stock Exchange, or the NASDAQ National Market List. **FTSE® NAREIT® Equity REIT** Index is an unmanaged market value-weighted index based on the last closing price of the month for tax-qualified REITs listed on the New York Stock Exchange (NYSE). **FTSE NAREIT All Equity Total Return Index** is a market capitalization-weighted index that is designed to measure the performance of tax-qualified real estate investment trusts (REITs) listed on the New York Stock Exchange, the NYSE MKT LLC, or the NASDAQ National Market List.

**Fidelity U.S. Low Volatility Factor Index** is designed to reflect the performance of stocks of large and mid-capitalization U.S. companies with lower volatility than the broader market. **Fidelity U.S. Value Factor Index** is designed to reflect the performance of stocks of large and mid-capitalization U.S. companies that have attractive valuations. **Fidelity U.S. Quality Factor Index** is designed to reflect the performance of stocks of large and mid-capitalization U.S. companies with a higher quality profile than the broader market. **Fidelity Small-Mid Factor Index** is designed to reflect the performance of stocks of small and mid-capitalization U.S. companies with attractive valuations, high quality profiles, positive momentum signals, and lower volatility than the broader market. **Fidelity U.S. Momentum Factor Index** is designed to reflect the performance of stocks of large and mid-capital-ization U.S. companies that exhibit positive momentum signals. **Fidelity High Dividend Index** is designed to reflect the performance of stocks of large and mid-capitalization dividend-paying companies that are expected to continue to pay and grow their dividends.



Fidelity INVESTMENTS®

# Appendix: Important information

**Market Indexes** (continued)

**The London Bullion Market Association** (LBMA) publishes the international benchmark price of gold in USD, twice daily. The LBMA gold price auction takes place by ICE Benchmark Administration (IBA) at 10:30 a.m. and 3:00 p.m.

**Consumer Price Index** (CPI) is an inflationary indicator published monthly by the U.S. Bureau of Labor Statistics that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation.

**Personal consumption expenditure** (PCE) indexes, published by the U.S. Bureau of Economic Analysis, are a primary measure of actual and imputed household expenditures on goods (durable and non-durable) and services. Core PCE, the Federal Reserve's preferred measure of consumer price inflation, excludes volatile food and energy prices. Definitions, data, and related resources regarding CPI and PCE variants are available at https://www.atlantafed.org/research/inflationproject/underlying-inflation-dashboard.

**Bloomberg Commodity Total Return Sub-indexes** are composed of futures contracts and reflect the returns on fully collateralized commodity investments in metals, agriculture, energy, and precious metals. The sub-indexes are the Bloomberg Industrial Metals Subindex Total Return Index, Bloomberg Agriculture Subindex Total Return Index, Bloomberg Energy Subindex Total Return Index, and the Bloomberg Precious Metals Subindex Total Return Index.

The Chartered Financial Analyst® (CFA®) designation is offered by CFA Institute. To obtain the CFA charter, candidates must pass three exams demonstrating their competence, integrity, and extensive knowledge in accounting, ethical and professional standards, economics, portfolio management, and security analysis, and must also have at least 4,000 hours of qualifying work experience completed in a minimum of 36 months, among other requirements. CFA® is a trademark owned by CFA Institute.



1126376.1.0